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SPECIAL REPORT: BEST COLLEGE VALUES 2015

Money

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5 WAYS TO SAVE, EARN & INVEST YOUR WAY TO REAL WEALTH

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Money FEATURES

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Photograph by THE VOORHES

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PAUL BAUMGARDNER BUILT HIS CONSULTING PRACTICE ON TRUST.

Cover photograph by **THE VOORHES**

PHOTOGRAPH BY LEAH OVERSTREET

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STANFORD UNIVERSITY

NEW! MONEY COLLEGE PLANNER

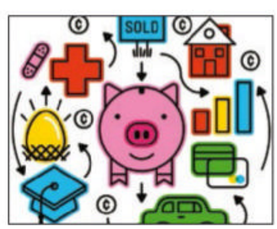
Our ultimate guide to finding, getting into, and paying for the school that's right for your child—and your budget. Browse our unique, value-focused lists of the best colleges in a range of categories, and customize your search based on the factors that are most important to you. **money.com/colleges**

HOW TO REACH $1 MILLION

Take a tip from folks who are well on the way to seven figures. **money.com/million**

MONEY ESSENTIALS

Check out our encyclopedia of personal finance basics for the key things you need to know about investing, saving, debt, real estate, and more. **money.com/money101**



WISDOM FROM A LEADER

Vanguard founder and index-fund pioneer Jack Bogle shares the investing advice he gives his children and grandchildren. **money.com/video**

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COLUMNIST

PAUL J. LIM
casts a skeptical investor's eye on the latest stock and bond market trends.

CLOCKWISE FROM TOP: PHOTOGRAPHS BY LEAH FASTEN; CHAD GRIFFITH; GETTY IMAGES

Write the Editor: editor@moneymail.com

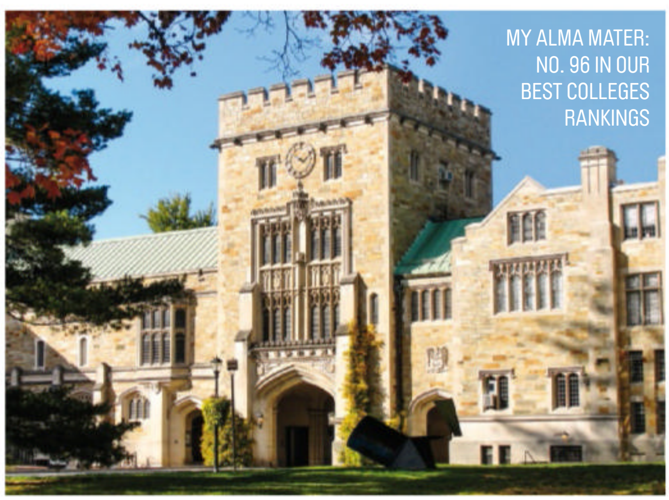
Searching for a Great College? *Start Here*

BACK IN THE LATE '70s, as the first person in my family to go to college, I had no clue about how to pick the right school or how I'd pay for it. My high school guidance counselor seemed nearly as clueless as I was. And I knew my parents wouldn't be able to kick in much for tuition from either savings or their modest income.

So I muddled through. I chose my school for silly reasons in retrospect—I'd heard of Vassar, I had a friend who was going, and the campus looked lovely on the spring day I took a tour. I lucked out: I got a great education, and thanks to generous grants and a small loan, the bills were manageable. My postgrad student-loan payments were manageable too, even on a newbie journalist's skimpy salary.

That approach would never work today. Soaring tuition, crippling levels of student debt, and a highly competitive job market for new grads have changed the stakes dramatically. Finding a school that delivers great value—a quality education at an affordable price while helping students launch promising careers—is no longer just the preferable approach for families; it's imperative.

We want to help, starting with "The Best Colleges for Your Money," our second annual list of the top values in higher ed (page 56). Five months in the making, these rankings identify over 700 great schools based on 21 measures of quality, affordability, and alumni success. The list—developed by senior writer and education expert Kim Clark, working with deputy editor Ellen Stark and College Measures president Mark Schneider, former commissioner of the National Center for Education Statistics—stands apart from other rankings in the smartness of its methodology and the objectivity of the data. We think you'll find it useful in your college search.



MY ALMA MATER: NO. 96 IN OUR BEST COLLEGES RANKINGS

This year we're also introducing the MONEY College Planner (money.com/colleges), which provides great tools and advice for college-bound families. Built in partnership with Unigo.com, the site offers customized college search, unique data on all the schools in our rankings, profiles of the top 50, plus many useful articles. A premium version ($24.95 a year; $14.95 for MONEY subscribers) has even more features: additional and more personalized search filters; a weekly Q&A with college counselors; scholarship search; and a half-hour college counseling session with an adviser from the Independent Educational Consultants Association.

If you're nearing the tuition years, we hope you find our College Planner helpful. Please let me know.

Diane Harris

DIANE HARRIS
EDITOR

twitter.com/dianeharris

PHOTOGRAPH COURTESY OF VASSAR COLLEGE

Write to MONEY: letters@moneymail.com

LETTERS & COMMENTS

ONLINE COMMENTS ABOUT RECENT *MONEY* STORIES

Hope this field keeps growing. It's definitely needed.

RENEE DOWD GUIRGUIS
Re: "New Help for Money Ills"

Oh, so tempting. Soon, I hope. I adore the sea!

@JULIANAUBREY
Re: "Best Places to Retire—Waterfront Living"

This year it's my turn.

JOSE JIMENEZ
Re: "Where Are Most of the World's Millionaires?"

There is nothing on my list to *not* buy with credit cards because I don't use cash!

KENT ROBINSON
Re: "3 Things You Should Never Buy With a Credit Card"

CORRECTION

The article "Best Places to Retire" (July) incorrectly stated that people 55 and older don't pay Colorado state income tax. In fact, they get only a tax break on some retirement income of up to $20,000, though the exemption rises to $24,000 for people 65 and older.

RE: NEVER WORRY ABOUT MONEY AGAIN [JULY]

It's safe to say that since the invention of the first currency, every conceivable lesson about money has been handed down from one generation to the next. Yet as your cover story so accurately points out, many Americans are far from mastering its use. Like healthy eating and exercise habits, the path to financial fitness is as simple as it has always been—the secret lies in preparation.

MICHAEL AARON GALLAGHER, *Syracuse*

COLLEGE LOAN HELP

In "Borrow Smart for Your Kid's College" [July], Reyna Gobel reviews parent financing options for college. There is a less expensive option: tuition installment plans. If the parents can afford to pay the bills—but not in one lump sum—an installment plan helps. Most colleges offer the option for a fee of less than $100. And since these plans don't carry interest, they can be a more affordable option than long-term debt.

MARK KANTROWITZ
Publisher, Edvisors.com, Las Vegas

CELL-PLAN FAVORITE

Your report "Find Your Perfect Cell Plan" [July] was interesting, but you missed Consumer Cellular. I've checked out all the majors and even tried a few, but Consumer Cellular is our choice. You pay only for what you use, and rates start at $10 a month.

GORDON MCLEAN
River Grove, Ill.

EDITOR'S NOTE: *This year we evaluated only carriers that had a customer-care performance rating from J.D. Power. Consumer Cellular did not.*

DRIVING DIRECTIONS

In "Mega-Road Trips" [July] you suggest driving the West Coast route from Seattle to L.A. You might be better off driving in the other direction. Sections of Route 1 have no guardrail on the seaward side. If you're forced off the road, you might experience a once-in-a-lifetime dive into the Pacific.

TONY HAYS, *San Clemente, Calif.*

BOOKLIST, CONTINUED

I enjoyed "The Only Two Investing Books You Really Need to Read" [July]. Your picks (*A Random Walk Down Wall Street* and *Irrational Exuberance*) are certainly informative. However, I'd recommend John C. Bogle's *Common Sense on Mutual Funds* and William Bernstein's *The Intelligent Asset Allocator* for most investors.

ROD CINK, *Bandon, Ore.*

NOTE: *Read our interview with Bogle on page 74.*

PHOTOGRAPH BY DAN SAELINGER; PROP STYLING BY DOMINIQUE BAYNES; EMOJI ILLUSTRATION BY PAUL ANSON

The Inaugural

Money® MAGAZINE CRUISE

BUILDING The NEW RETIREMENT

SEPT. 27 – OCT. 4, 2015 CRYSTAL SYMPHONY

Money Experts Share Their Insights on the Economy, Growth & Income, ETFs, and more.

Walter Updegrave
Money

Deena Katz
Evensky & Katz

Harold Evensky
Evensky & Katz

Jack Ablin
BMO Private Bank

Mary Ellen Stanek
Baird Advisors

Dear Investor:

Greetings, this is Paul Lim, your co-host of the first-ever ***Money* Magazine Cruise, Building the New Retirement, September 27 – October 4, 2015,** from Montreal to New York City.

Why "New Retirement?" Because so many of the rules and assumptions about retirement planning have changed. Gone are traditional pensions, standard rules for drawing down retirement savings, and even the concept of a traditional 'retirement age' itself.

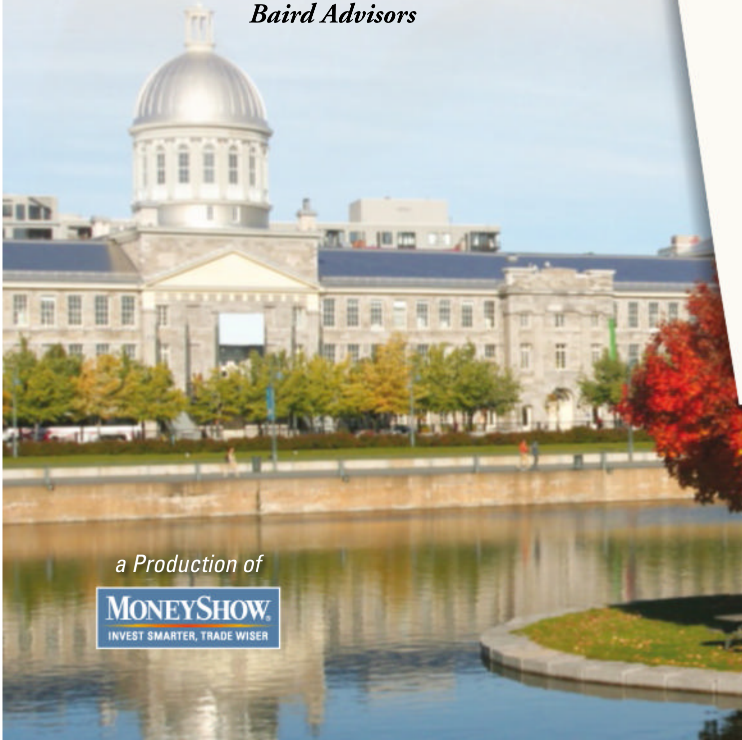
To help you understand these new rules — and to provide you with expert investing and planning advice in this new era — we've assembled a top-notch roster of retirement experts. This includes **Harold Evensky** and **Deena Katz**, co-founders of the wealth management firm Evensky & Katz and professors of personal financial planning at Texas Tech; **Jack Ablin**, chief investment officer at BMO Private Bank, who can share his insights on the market; **Mary-Ellen Stanek**, chief investment officer at Baird Advisors, who can share her thoughts on the interest rate outlook; and **Walter Updegrave**, long-time *Money* columnist and editor of RealDealRetirement.com.

You will be able to meet, converse, and really get to know the speakers and your fellow *Money* cruisers over cocktail receptions, hosted dinners, coffee-talk at the Bistro and through shared cruise activities.

We hope that you'll be able to join us for what's sure to be seven days full of fun and valuable insights.

Warmest regards,

Paul Lim
Assistant Managing Editor, *MONEY* magazine



FIRST

New cars that are financed—and leased

A record number of new-car shoppers are financing their vehicles with a lease, rather than with a conventional loan. "Leasing lowers the monthly costs of a new car," says Kelley Blue Book senior analyst Karl Brauer, all the more important because new-car prices are up 2.6% in the last year. Before you lease, try these tips for getting the best deal:

PAYMENT PLANS

NEGOTIATE THE PRICE. Try to bargain down the capitalized cost—the equivalent of the sales price if you were buying the car. You may be able to knock about 7% off if the car started at full list price. For a typical $26,250 sedan on a 36-month lease, you would save $82 a month.

LOOK FOR DEALS. Manufacturer-sponsored promotional leases can offer great value. For instance, a current lease deal offers a Hyundai Elantra at $179 a month for 36 months, with $1,499 due at signing. That's $77 a month less than with a list-price lease.

LIMIT THE DOWN PAYMENT. Don't put down more than $2,000, says Greg McBride, chief financial analyst at Bankrate.com. If the car is totaled, the leasing company would get it replaced, but your down payment would be lost. Some of the best leases require no down payment. Honda offers one for an Accord for $250 a month for 36 months. —JERRY EDGERTON

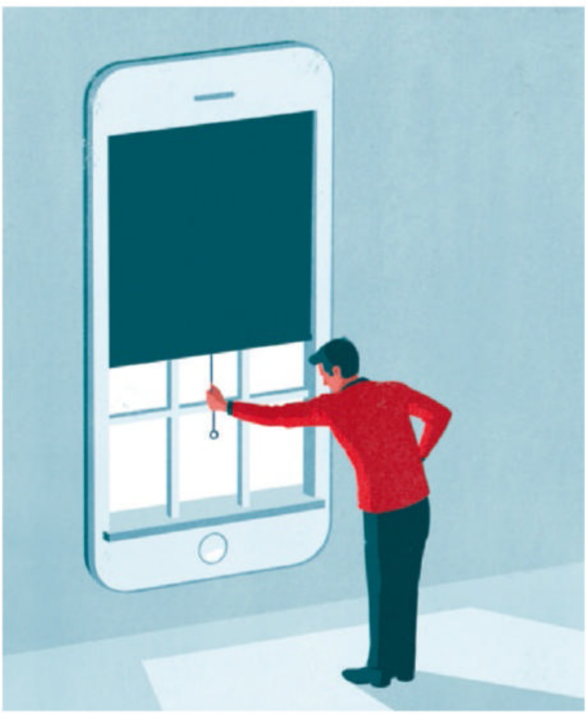
PROP STYLING BY MEGUMI EMOTO

Photograph by CLAIRE BENOIST

Did someone create a fake tax return in your name? Find out what to do next at ***money.com/stolenrefund.***

TECH

Stop Spam Texts and Robocalls

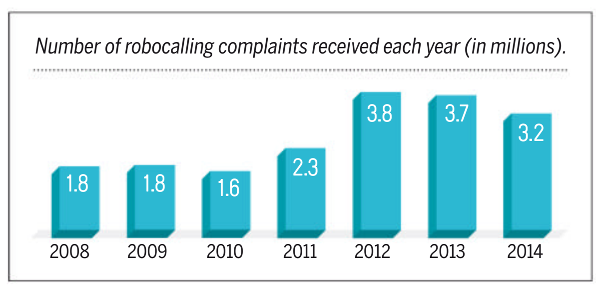


WASHINGTON JUST MADE IT much easier to stop those annoying robocalls (if that's not redundant). Despite heavy lobbying from telemarketers, the FCC ruled last month to uphold the Telephone Consumer Protection Act and bolster the Do Not Call Registry. Among its rulings:

- Phone service providers can now offer robocall-blocking technology to customers.
- Consumers can opt out of robocalls at any time.
- The same protections and opt-out rights regarding telemarketing messages apply to text messages as well as calls to wireless and landline phones.

"We applaud the FCC for holding the line to keep the plague of unwanted robocalls from becoming even worse," said Susan Grant, director of consumer protection and privacy at the Consumer Federation of America.

To stop robo- and other telemarketing calls, register your numbers (home and mobile) at DoNotCall.gov. And look for your phone service provider to offer call-blocking tools in the near future. —BRAD TUTTLE



SOURCE: *Federal Trade Commission*

ID THEFT

PHONY TAX RETURNS RELEASED TO VICTIMS

The Internal Revenue Service has changed its policy and will now provide identity-theft victims with copies of fraudulent tax returns filed in their name.

The agency had previously refused to release the fake returns for privacy reasons. Instead, victims were notified only that their personal information had been used to file false returns.

If you've been victimized, alert the credit bureaus.

"If a thief had enough information to file a false tax return, he could have opened new credit card accounts or taken out a loan in your name," says Troy Lewis, chairman of the American Institute of CPAs. —*KERRI ANNE RENZULLI*

QUOTED

"Read it, if you like. Enjoy it, if you can. Just don't rely on it for your planning and investing."

Walter Updegrave, *editor of RealDealRetirement .com, on "4 Signs You May Be Addicted to 'Financial Porn'"*

Illustration by MATT HARRISON CLOUGH

PHOTOGRAPHS BY GETTY

ON THE BEACH AT THE CLUB MED RESORT AT PUNTA CANA

BOOKING SWEET SPOT: 2–3 WEEKS

Last-Minute Vacations

Forgot to plan a summer getaway? No worries. Spur-of-the-moment trips are easier than ever to book, and cheap too. —BY STIRLING KELSO

ALL-INCLUSIVES

Many resorts resell rooms that were canceled at the last minute, says Benoit Montigny, a director of revenue management for Club Med. If you have a favorite resort chain, follow it on Twitter and Facebook, where you'll find deals such as one offered recently by Playa Resorts: rooms at its Hyatt Ziva Rose Hall in Jamaica for $355 a night, a 55% savings. That said, only 52% of inventory is posted, notes CBS News travel editor Peter Greenberg: "A last-minute cancellation isn't necessarily announced through a website or a clearing house, so call the property directly and use the web as a backup."

CRUISES

If the destination is less important than the experience, head to the Caribbean, which accounts for more than one-third of all cruise-ship travel from the U.S. A recent **Norwegian Cruise Line's** four-night Bahamas trip, available 10 days before departure on LastMinuteTravel.com, went for $348 a person (a 27% savings). If you're looking for a luxury cruise, call the experts. With only two weeks' notice, Marcella Rappoport at Ovation Vacations found a 10-day Oceania sailing from Lisbon for $4,799 per person, 77% off the brochure rate. Cruise-savvy agents can also negotiate extras such as prepaid gratuities, Internet, and shipboard credits.

BOOKING SWEET SPOT: 2–4 WEEKS

PACKAGES

Work with operators such as Trafalgar and Gate 1, which have web pages for around-the-corner sales. G Adventures recently offered a nine-day **Morocco** trip, booked two weeks before departure, for $1,049 a person, a 25% savings. If you use sites like Expedia and Orbitz, think off-peak: Europe in the fall, for example. For long weekends, take Monday off instead of Friday, since Sunday is often the cheapest night at a hotel, says Isar Meitis, president of LastMinuteTravel.com.

BOOKING SWEET SPOT: 7–30 DAYS

DIY Trip Planners

If you like building your own holiday, these tips can help save on rooms and transportation:

CAR RENTALS
Use your mobile device to search for deals. Companies such as Priceline.com and Hotwire.com post some of their of-the-moment offers exclusively through their apps.

HOTELS
On RoomerTravel.com, travelers can sell their canceled, nonrefundable hotel rooms, so you often see deals up to 85% off original booking prices.

FLIGHTS
Follow the Twitter feed @AirfareWatchDog, Flyertalk's online Mileage Run forum, and Flight Deal's Facebook page. Confirm prices that seem *too* good with the airline.

CLOCKWISE FROM TOP: PHOTOGRAPHS COURTESY OF CLUB MED; GETTY IMAGES; COURTESY OF NORWEGIAN

Join the conversation: twitter.com/money
facebook.com/moneymagazine • pinterest.com/moneymagazine

READERS TO THE RESCUE

"I'm unhappy with my broker, but he's also a friend. How do I fire him and not ruin our friendship?"

There *is* a good chance this will impact your relationship, so you have to be prepared for that. Good lesson—never mix business with pleasure.

SIREN CHUDGAR
Saint Johns, Fla.

Put on your big-boy pants. Do your research, then say something like, "I've found that my returns are not as good as they could be. For business reasons, I need a new adviser." Then invite him to a barbecue on Friday to cement that you want to stay friends.

TIMOTHY GLASS
Phoenix

Before switching, schedule a face-to-face meeting. Making the decision before discussing it with your adviser disrespects the friendship.

CAROLE MONTGOMERY
Milwaukee

This happened to me. The truth is, your long-term goals change when you marry, have a family, or near retirement. If your adviser is not offering the advice or products you need, let him know in a polite and caring way that you need to change directions.

LYNNE CRAIG RUDSTROM
Lincoln City, Ore.

Don't let the friendship cloud your relationship. If he or she is not protecting your finances, then it's time to find someone who will.

MARVIN SANDS
Independence, Mo.

Tell your friend that you made a mistake mixing friendship and money and that the friendship means more to you, so you are going to end the money relationship.

RUTH HEARD
New York City

THE EXPERT SAYS

Ask yourself if you were expecting extras because this person is a friend. If you weren't, confront her about your portfolio and give her a chance to respond. If she is underperforming, acknowledge that this is the difficult part of doing business with friends, but you need a change.

BARBARA PACHTER
Author of The Essentials of Business Etiquette

Want solutions to a financial dilemma in your life? Email your question to ***social@moneymail.com.***

FACEBOOK QUESTION OF THE MONTH

WHAT'S YOUR BEST ADVICE FOR PICKING THE RIGHT COLLEGE?

SEE THE *MONEY* COLLEGE GUIDE (PAGE 56)

"It is not really about picking the right college. You have to pick the right major." —JONATHAN TETKALE FRANCOIS

"Pick a place you can afford so you don't start off your career in debt." —ROX AIMEE

"Choose an institution that excels in your major, future goals, and aspirations. Research [its] programs, and look at postgraduation employment statistics." —SUZIE GORDON

"Never pay more in tuition than your degree will be worth in the market." —JEN KING

"Pick somewhere not too far from home and not too close. Being alone is best for personal growth." —ESTEBAN VARGAS

"There is no shame in going to a community college for your basics." —BUZZ STOPANI

"Most employers don't care where you went. Go somewhere in your budget." —KEVIN MILLER

PHOTOGRAPHS BY SHAYLA HUNTER; ILLUSTRATION BY STEVE WALKOWIAK

Amp Up Your Game

The pros use fancy gadgets to boost their performance, so why shouldn't you? Bonus points: These toys fit an amateur's budget. —DOUG AAMOTH

FLOATING FISH FINDER

Toss the **FishHunter** in the water, and it will give you the depth (up to 133 feet) and temperature—and a whole lot more. A baseball-size, military-grade device that connects to your smartphone via Bluetooth, the FishHunter has a mapping feature that lets you pinpoint fish-filled sweet spots or mark out hazards such as sandbars and rocky areas in a 150-foot range. It can be used for ice fishing and sports a blinking light for night fishing. Battery life is up to nine hours. **COMPATIBILITY:** iOS, Android

GOLF-SWING ANALYZER

Resembling a chunky ball marker, the **SwingTalk** sensor attaches to the end of your golf-club grip. It packs a gyro sensor and accelerometer, which connect to your smartphone to provide three-dimensional swing analysis: tempo, club speed, trajectory, and shaft angles. Got the yips? It will even help improve your putting by measuring your backswing, follow-through, and clubface angle at the moment of impact. **COMPATIBILITY:** iOS, Android

BIKE COMPUTER

Wahoo's **RFLKT+** is a small, sunlight-readable, low-power display that attaches to your handlebars and pairs with your favorite biking app. It serves up heart-rate info, GPS and elevation data, live temperature and humidity reports, and even music playback controls. Also, you can customize the viewing screens to keep your hands free and your mind on navigating while you ride. Includes handy stem, bar, and quarter-turn mounting hardware. **COMPATIBILITY:** iOS, Android

SHOPPING TIP *You can often save 10% or more on Amazon by checking out the "Other Sellers" box on the right-hand side of the screen.*

PHOTOGRAPH BY DAVID ARKY; PROP STYLING BY TERRY LEWIS; ILLUSTRATIONS BY SHUTTERSTOCK (3)

For more of MONEY's technology reviews, go to ***money.com/tech.***

Plan

Plastic With Privileges

TAKE ADVANTAGE OF LESSER-KNOWN CREDIT CARD PERKS AND YOU'LL FEEL LIKE A VIP. *by* Taylor Tepper

THE FULL VALUE of a credit card in your pocket can go far beyond the usual cash back and reward points. Rental-car insurance, free credit scores, and other freebies are there for the taking—as long as you know where to look.

Not everyone does, however. Jim Miller, J.D. Power's senior director of banking, estimates that one-third of credit card users don't know the benefits that come with their cards.

To make sure you're not overlooking extras perhaps worth hundreds in all, read the disclosures on your issuer's website to see what you're

PROP STYLING BY SHANE KLEIN

Photograph by YASU+JUNKO

due. Although you might not want to switch cards just for the perks, if you are in the market for a new card with better terms, why not pick one that gives you a little more? Here are some standouts.

CREDIT

THE PERK: free credit information The standard price to see your FICO credit score is $20 for a peek that's bundled with a credit report from one of the three major credit bureaus. But issuers such as Citibank and Barclaycard will pass along your FICO score from one of the big three for free. "The giveaways are great," says John Ulzheimer of CreditSesame.com.

***MONEY* PICK: Discover it** Like other Discover cards, this one—which MONEY named the best online-shopping card last year for its discounts—reports your FICO score from TransUnion. The card's new Freeze It feature also lets you temporarily block one-time charges. So if your card is missing and you're pretty sure it hasn't been stolen, your Netflix autopay will go through, but no one will be able to use your plastic at Best Buy.

SHOPPING

THE PERK: price protection Say you buy something only to see its price drop within a few weeks. Some credit cards will return the difference. Electronics are most likely to qualify, says Ben Woolsey of CreditCardForum.com. Cars, event tickets, and jewelry usually aren't covered.

***MONEY* PICK: Citi DoubleCash** A MONEY pick for best flat-rate rewards card, DoubleCash, like other Citi cards, features Price Rewind, a program that refunds up to $300 per purchase and $1,200 per year. Citi, unlike other issuers, doesn't make you find the falling prices. Instead, Citi does the price checks for purchases you register. The average refund is now $35.

THE PERK: free fast shipping American Express cardholders get free use of ShopRunner, a $79-a-year service offering two-day shipping from over 100 online retailers. Stores include Lord & Taylor, Toys "R" Us, AutoZone, and drugstore .com (but not Amazon.com).

***MONEY* PICK: American Express Blue Cash Preferred** MONEY's top card for cash back on essential purchases returns 6% of your annual grocery spending, up to $6,000, and 3% at the pump. A $150 sign-up bonus for spending $1,000 within three months makes up for the $75 yearly fee.

Snag Free Bags

Buy your flights with these cards to avoid the $25 charge on each traveler's first checked bag. Got a big family? Fly Delta.

AIRLINE CREDIT CARD	ANNUAL FEE	FREE-BAG LIMIT
American Citi/AAdvantage Platinum Select MasterCard	$95*	5
Gold Delta SkyMiles Card from American Express	$95*	9
United MileagePlus Explorer Card (Visa)	$95*	2
Virgin America Visa Signature	$49	2

*Annual fee is waived the first year. **NOTES:** One free bag per person; all travelers must be on same reservation. **SOURCES:** Card issuers, MONEY reporting

TRAVEL

THE PERK: primary rental-car insurance While your card may offer insurance on rental cars, chances are it's secondary to your own insurance: If your rental is totaled, your policy takes the hit. Some cards, though, don't make you go through your regular insurer first, thus protecting your rates, says NerdWallet.com's Kevin Yuann.

***MONEY* PICK: Chase Sapphire Preferred** Pay for your rental with this card (MONEY's best card for mileage hounds) and decline the rental company's collision (or loss) damage waiver. You'll be eligible for reimbursement up to the actual cash value of the car in case of a collision or theft. A caveat: Some exotic cars aren't covered.

THE PERK: less-stress travel From planning your trip to keeping track of your flights, travel is a recipe for high blood pressure. Cards that enrich your trip and protect you from some of flying's hassles (see chart) can be the cure.

***MONEY* PICK: Barclaycard Arrival Plus World Elite MasterCard** This card gives you free use of the travel organization app TripIt Pro ($49 annually), which automatically creates your itinerary, sends real-time flight alerts, and can locate alternate flights. You also get access to a no-fee personal travel planner and discounts on hotels and events. The downside: an $89 annual fee, waived the first year. M


Where should my kid go to college?
Get the answers with the *Money College Planner*™.
COLLEGE PLANNER
Money
The right school. The right price. The best value.
Value-focused rankings
Customizable search of 737 schools
One-on-one expert advice
Financial tools
For $24.95 a year, the *Money College Planner*™ will help you find the schools that your child will love and your finances can handle. Stress averted.
Visit money.com/collegeplanning to learn more.
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UNIGO
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Q

INVESTING

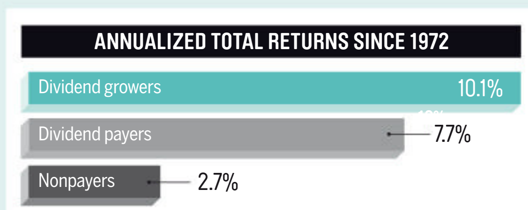
What's the best way to buy the "dividend aristocrats" Buffett talks about? —SHERON MILLINER

A That moniker typically refers to companies that have paid and raised dividends—without fail—for at least 20 or 25 years. The dividend doesn't have to be large. "It just has to be sustainable," says **Ron Weiner, CEO of investment advisory firm RDM Financial Group.** "A company is showing its confidence in growth by increasing dividends."

Aristocrats tend to be value-oriented blue chips, such as PepsiCo, Walmart, and Johnson & Johnson. That said, their place in court isn't guaranteed. Banks were once dividend aristocrats, but many cut their payouts after the financial crisis.

Weiner suggests an exchange-traded or mutual fund that focuses on dozens or hundreds of dividend aristocrats. The **SPDR S&P Dividend ETF** (SDY), for instance, sticks to stocks that have increased their dividends for 20 consecutive years.

While dividends matter, stocks that raise payouts year in and year out are the market's real aristocrats.



NOTE: Among stocks in the S&P 500. SOURCE: Ned Davis Research

Q

COLLEGE

Will my daughter's 529 college savings account hurt her chances of getting financial aid?"

A You're right that your savings will affect the amount of money you'll be expected to cough up for tuition. But the impact will be minimal.

College savings accounts don't count nearly as much as income for financial-aid purposes, says **Joe Hurley, founder of Savingforcollege.com.** "It's the income that you report that can have a big impact on your aid eligibility."

In the federal-aid formula, 22% to 47% of parental income can be earmarked to pay for college expenses (what's called your "expected family contribution," or EFC).

College savings accounts are considered an asset and are assessed at a maximum rate of 5.64%. So for every $1,000 you've socked away in your 529, the most your EFC could increase is roughly $56.

Q

RETIREMENT

My 401(k) caps my savings at 5% of pay because I earn too much. What can I do?

—E.O., *Long Island, N.Y.*

A The general rule is that workers can put away $18,000 this year in a 401(k) plan. But if you earn more than $120,000, own more than 5% of your company, or are in the top 20% of earners at the firm, you are considered a highly compensated employee. And if not enough lower-paid workers contribute to the 401(k), your contributions can be limited.

There are ways around the limits, though none are easy or realistic, says **Craig Eissler, a certified financial planner with Halbert Hargrove in Houston.** A better solution: Look for other ways to pump up tax-advantaged savings, he says. Among them: contributing to a Roth IRA (eligibility phases out once you earn $193,000 as a married couple) or a nondeductible traditional IRA. M

By Sarah Max, Kaitlin Mulhere, and Donna Rosato

Read more answers from Ask the Expert and submit your own question about personal finance at ***money.com/expert.***

Home Sweet Profit Center

THINKING ABOUT RENTING YOUR HOME TO TRAVELERS? TAKE A CAUTIOUS APPROACH. *by Josh Garskof*

OF ALL THE CATEGORIES shaken up by the sharing economy, few are as transformed as lodging. For travelers, ditching the hotel for Airbnb can be a more affordable way to go. And on the flip side, offering your own home or apartment to vacationers can earn you cash—$100 to $150 a night on average, according to Airbnb, much more in some popular destinations.

That can be fairly easy money. Unless something goes wrong, in which case it can be a disaster. You need to protect yourself from legal and financial risks. Here's what home sharers should know.

ASSESS YOUR EARNING POWER

If you want to rent out a room in your home while you are living there, you can post an ad for free at Airbnb, which takes a 3% cut of your rental fees, plus an additional 12% to 15% "service fee" from your guest. You set your own price; the site verifies users' identities and provides guest and host reviews.

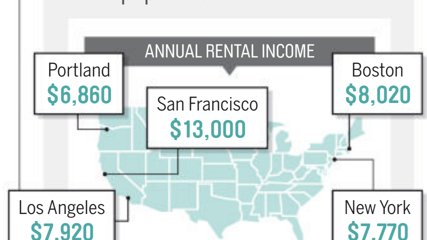
You can also rent your place while you're away through Airbnb, or through vacation rental sites like VRBO and HomeAway, which charge a flat annual fee of $350 if you're a regular user, or 10% of each rental if you're just dabbling.

UNDERSTAND YOUR RISK

Depending on where you live, short-term rentals could violate municipal laws or homeowners association regulations. You might be required to pay an occupancy tax or get a special hotelier's license. (Consult a lawyer or visit town hall to check local rules.) If you rent for more than 14 days a year, you'll also need to report the income on your taxes.

Where Hosts Make the Most

Here's what the typical Airbnb host earns annually in five of the most popular destinations.



NOTE: *Based on the rental of a single property for approximately 66 days per year.* **SOURCE:** *Airbnb*

But those aren't the big dangers. The worst-case scenario is that a guest burns down your home or gets injured there, in which case your standard homeowners policy may not cover the claim. "So that $2,000 rental fee could turn into losing everything you've got," says San Francisco attorney Tad Devlin, himself an Airbnb host.

PLAY IT SAFE

Don't just rely on the home-sharing site's standard insurance plan, because the coverage is generally too ambiguous, says David Reiss, research director for the Center for Urban Business Entrepreneurship at Brooklyn Law School. Your existing homeowners policy may cover you for a single rental of less than two weeks, but call to ask.

More than that and you'll need to switch to a commercial policy, which covers paying guests and typically costs an additional $500 per year, says Scott Wolf of CBIZ Property & Casualty.

Or try home swapping. For a small annual fee, sites such as HomeLink and HomeExchange connect people who want to visit each other's location; because no money changes hands, you may avoid tax and liability issues. Still, check with your insurer—and of course, you need to be extremely cautious about who you let into your house. As a rule, none of these sites conducts background checks, so do your own by Googling guests and searching their social media accounts.

"Five years from now, the laws and the insurance policies will have caught up with the sharing economy," Reiss predicts. "For now, though, it boils down to how risk averse you are."

The Right Way to Give an Allowance

USE THE WEEKLY DOLE TO HELP YOUR CHILD BUILD GOOD FINANCIAL HABITS—NOT AS PAY FOR ROUTINE CHORES.

by Farnoosh Torabi

JAKE JOHNSON'S approach to providing his son Liam with some money of his own is inventive. The Tempe, Ariz., dad encourages his 9-year-old to identify problems around the house, propose solutions, and then (my favorite part) negotiate his payment. Case in point: The boy recently raked leaves in their yard to make $10. Says Johnson, "I want him to see that earning money can be creative and fun, not something you do just because someone tells you to."

The concept of an allowance is evolving. Today, 70% of kids get one, says T. Rowe Price, up from 47% in 2013. While many parents use this device to reward children for doing their everyday chores, many of the moms and dads I've spoken with say they prefer to use the weekly dole as a teaching tool—a way to help their offspring learn about budgeting, trade-offs, and critical thinking about money.

What's the best way to accomplish that? Try these tactics.

REWARD EXTRA EFFORT ONLY

Don't tie regular chores to the allowance, says Beth Kobliner, author of the forthcoming book *Make Your Kid a Money Genius (Even If You're Not)*. You want your child to understand that being part of a family requires doing some tasks for which you will not be compensated—say, stacking the dishwasher and keeping your room clean.

You *can*, however, give a bonus for odd jobs above and beyond expectations, as Johnson has done. "This instills the critical linkage between work and money," says Bill Dwight, founder and CEO of online family banking service FamZoo.

MAKE IT A BUDGETING EXERCISE

Some experts recommend giving $1 a week for each year of age, so a 10-year-old would get $10. Or, work out what you expect them to pay for—say, snacks at school or new videogames—and figure the right amount from there. Then, as your child gets older, have her start covering larger purchases you'd normally make, says Kobliner. You might, for example, let a teen manage the $300 you've budgeted for back-to-school clothes. If your kid spends his funds too fast, leaving himself no money for gas, he'll be reminded each time he takes the bus to school the rest of the week. "Let them experience the consequences," says Dwight. "No bailouts."

INSTILL LIFELONG HABITS

Just 1% of parents surveyed by the American Institute of CPAs say their kids set aside any money. Encourage better behavior in a younger child by establishing separate piggy banks for spending, saving, and giving, then let her help choose a charity to donate to. Help tweens or teens set a specific savings goal, and consider a "Mom and Dad" match of, say, 25% up to the first $100 saved, Dwight suggests. Nothing will get a child (or adult) more excited about saving than the promise of more cash. M

Financial correspondent Farnoosh Torabi is the author of When She Makes More *and the host of* So Money, *a daily podcast.*

Illustration by CHRIS GASH

In this rented laboratory, Baumgardner cultivates and blends medicinal plants and herbs.

> *My business model is based on selling integrity and trust.”*

A Successful Formula

WHEN MANAGING A TESTING LABORATORY GREW OVERWHELMING, PAUL BAUMGARDNER CONCOCTED A FAMILY-FRIENDLY BUSINESS PLAN. *by Daniel Bortz*

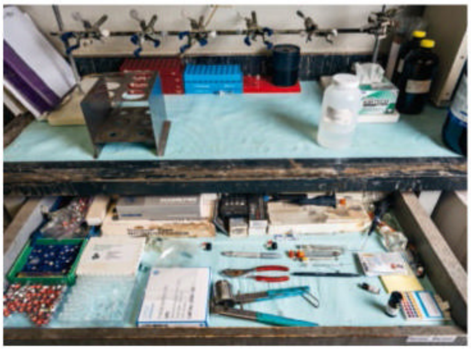
PAUL BAUMGARDNER, *44, PANHANDLE, TEXAS*

THEN	DIRECTOR, TESTING LAB
NOW	BIOCHEMICAL CONSULTANT

IN 2012, AFTER 20 YEARS as a corporate biochemist, Paul Baumgardner was ready for a change. Earning $150,000 annually as a director of a large environmental testing laboratory, he made a good living. But managing 10 direct reports and traveling 27 days a month among seven offices, the Panhandle, Texas, resident found the pace unsustainable. Says Baumgardner: “There was little time left for being married and raising two teenagers.”

While reading trade journals, Baumgardner sensed a need for support services for scientists doing independent research—everything from safety

Photographs by LEAH OVERSTREET



TOOLS OF THE TRADE Baumgardner uses this equipment to extract samples from plants he cultivates for clients.

testing to controlled cultivation of medicinal plants. Determined to fill the gap, he got an assignment from an oil and gas refinery to perform data analysis and assemble safety information for a new product. "I approached them, booked the job, and that weekend formed the company," he says.

Baumgardner began building that firm, Advanced BioGenetics & Life Sciences, while still at his old job. Vendors and contractors he'd met via the lab became early clients; with his expertise already established, he persuaded them to pay upfront—a practice he maintains today. "My business model is based on selling integrity and trust," he says.

In late 2013, Baumgardner left the laboratory to devote himself full-time to Advanced BioGenetics. He started teaching environmental and safety engineering, work that paid less than half his old salary but required only 15 hours a week, giving him more time to build his business. Since then, he's recruited 18 independent contractors and two research assistants to handle the growing workload. He pays them upfront too, saying it produces high-quality service for clients.

Now making $150,000 a year, Baumgardner is able to exercise daily with his family and be at the dinner table for home-cooked meals. "I'm grateful for the monetary compensation," he says, "but being able to spend more time with my family is priceless." ■

BY THE NUMBERS

$3,000

SEED CAPITAL Baumgardner charged his first client upfront, then used that money to launch Advanced BioGenetics. He formed a limited-liability company, bought a laptop, signed up for Internet and telephone service, and launched a website, all without taking on any debt.

1

FULL-TIME EMPLOYEE Crediting his success in part to how he has structured the business, Baumgardner pays all workers as independent contractors, giving him flexibility to match clients' needs with relevant expertise while keeping labor costs low.

31

YEARS UNTIL EXPECTED RETIREMENT Baumgardner's goal is to retire at age 75. Well before then, he'll have paid off his student debt (for his doctorate) and home mortgage, now totaling $100,000. His nest egg comprises a $250,000 portfolio in a traditional IRA and a life insurance policy set to hit a cash value of $1 million by his target retirement date.

STARTUP

HOW TO PICK THE RIGHT PRICE

Have a great new product or service? Now you need to decide how much to sell it for. "It's absolutely necessary to get the pricing right, or you won't be in business very long," says University of Rochester marketing professor George Cook. Here's how to proceed:

1 | KNOW YOUR COSTS Those are more than the obvious ones—what it takes to make each widget—says small-business expert Susan Solovic. You also have indirect costs, like marketing and salary. Allocate a share of those costs to each item you produce.

2 | SPY ON THE COMPETITION Find out what others in your market charge. Use the tool at sba.gov/sizeup to see who your competitors are and, if possible, do a little secret shopping, advises Solovic. Add a markup to your costs in line with industry standards.

3 | ESTABLISH YOUR VALUE You can charge a premium and deliver quality results, says Cook, or charge less and aim for higher volume. Either way, you'll have to convince customers they are getting a good deal. Solovic says an informal focus group of friends and family can provide a pricing gut check. —TAYLOR TEPPER

Illustration by **JOHN W. TOMAC**


Capital One
As a business owner you gotta have
GUTS.
FIRE.
PASSION.
Shouldn't your unlimited dedication be rewarded
WITH UNLIMITED CASH BACK?
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Retire

Go With the Money Flow

TEMPTED TO TRADE YOUR PENSION FOR A LUMP SUM? HERE'S WHY YOU SHOULD THINK TWICE. ***by* Ian Salisbury**

CONGRATULATIONS! You're one of the shrinking number of Americans who have earned the right to a pension—guaranteed income for life for you and maybe for your spouse as well. Just make sure you don't give it up too easily.

That's a real risk. Up to half of companies with pension plans, say experts, give workers the option of taking their pension as a lump sum. On top of that, 47% of corporate plans, including those from Boeing and Hewlett-Packard, either have just made or will soon make pension buyout offers to vested former employees, benefits firm Aon Hewitt

PROP STYLING BY SHANE KLEIN

Photograph by YASU+JUNKO

reported earlier this year. Driving those offers are IRS rules expected to make buyouts less favorable for employers within a year or so.

Lump-sum checks, often in the hundreds of thousands of dollars, are tempting. Fifty-eight percent of employees take buyouts, and the share taking the lump-sum option at retirement is likely higher, says Aon Hewitt consultant Ari Jacobs.

Pension industry experts and consumer advocates, however, say that for most workers the traditional pension is a better deal. So before you decide, think this over:

WHEN TO TAKE STEADY PAYMENTS

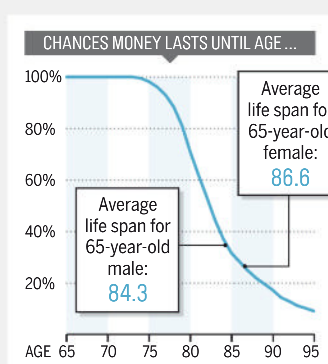
If you or your spouse is in good health and has a family history of longevity, lean toward taking the monthly pension. The advantages: The money lasts for life. If you make it to age 90—and 28% of 65-year-olds do—you'll still be getting that check. And, in exchange for smaller benefits, your spouse can continue to receive half or often all of those monthly payments after your death. So if you're a man and your wife survives you—on average, she will—she'll get cash for life too. One downside: Unlike Social Security, most private pensions don't adjust for inflation, so your purchasing power will diminish over time.

Now, you could invest the lump sum (set by a complex IRS formula) and use it to fund a monthly stipend. But even if you're the next Warren Buffett, you'd likely get less each month than you would from a pension. Say you're due $1,500 a month, or $1,295 if you opt for a 100% survivor's benefit. If you took the roughly $240,000 you'd receive instead and sought to have it last a 65-year-old's average life span of about 20 years (see chart), you'd pay yourself only $1,213, calculates David Blanchett, Morningstar's director of retirement research. And this strategy would have only an 80% chance of success. To be safe, you'd have to cut your allowance to $1,000 a month—or $855 to last until you're 90.

Why is the lump-sum income so low? Flying solo, you have to make sure your money lasts a full 20 or 25 years. But in a group plan, a lot of people will live shorter lives, so less money has to be reserved for them. The result is more generous monthly payouts for everyone, says Robert Goldbloom, a principal at pension consultant Penbridge Advisors. "People who don't live as long subsidize those who live longer," he says. That makes pensions a particularly good deal for women, given that they generally live longer than men.

A Drain on Cash

If you try to replicate your pension with a lump sum, you'll be fine for a few years. Later on, though, odds are your cash will run out.



NOTES: Assumes $1,500 monthly pension and $238,590 lump sum, based on current IRS rules. Money is invested 40% stocks, 60% bonds.
SOURCES: Robert Goldbloom, Penbridge Advisors; David Blanchett, Morningstar; Social Security Administration

WHEN TO TAKE THE LUMP SUM

If you're in poor health and don't have to provide for a spouse, the math favors the lump sum. Given a life expectancy of a decade or less, you'd have more than enough to duplicate a pension. In the above example, you could pay yourself $1,500 a month over 10 years, not invest a dime, and still have $60,000 left over.

A lump sum also makes sense if you have no cash in the bank or investments you can tap for emergencies. You could keep part of that money in the bank for urgent needs, and live off the rest.

Should you be lucky enough to live comfortably off other sources of income, you could take the money and invest it aggressively to maximize a possible inheritance for your beneficiaries.

Finally, take into account your pension plan's health. Most private-sector plans with at least 26 workers are backstopped by the Pension Benefit Guaranty Corp.—up to about $5,000 a month for a single-employer plan, but far less for a multi-employer plan. Check on your plan's "funded status"—a measure of its assets and liabilities. If the number, which the plan has to report to you annually, is falling toward 80%, that's worrisome; you might take the bird in the hand if you'd lose much of your benefits from a failed plan.

In any case, your best bet is to roll the money into a traditional IRA; otherwise, you'll get a big tax bill. Smaller withdrawals from the IRA, on the other hand, will likely be taxed at a lower rate. M

Why Kids Can Be Game Changers

IF YOU'RE STILL RAISING YOUNG CHILDREN, THE USUAL STRATEGIES FOR SOCIAL SECURITY MAY NOT APPLY.

by Philip Moeller

DID YOU WAIT until later in life to have kids? Then you might want to ignore conventional wisdom and take Social Security on the early side.

You may already know that children can collect Social Security based on the earnings of a parent who is disabled or dead. But it's also true that once you claim retirement benefits, your unmarried children are due money until their 18th birthday—even if both parents are alive and in good health. (If your children are still in high school, they can collect until they finish up or turn 19, whichever comes first; other rules apply to kids who are disabled.) The money is for your kids, but you are free to control minor children's spending.

This extra payment for kids adds a wrinkle to claiming Social Security benefits. As a rule you get a better financial deal by delaying, since between the ages of 62 and 70 your benefits increase 7% to 8% for each year you wait. But if you claim early and collect your kids' benefit along with your own, you can have more money in the earlier years of retirement and possibly reap more in total over your lifetime.

THE MONEY ADDS UP

Here's how the benefits work: When you file for retirement, each of your kids can get money equaling half of what you would be entitled to receive at full retirement age, currently 66. Even if you took a smaller benefit by claiming early, your child would get half of that larger, full-retirement-age amount.

Say you're a 62-year-old parent of a 14-year-old. You could wait four years to collect $2,000 a month at full retirement age. Or you could immediately receive $1,500 while your child gets $1,000 a month until reaching the age cutoff—$2,500 monthly for the next four years, then back down to $1,500.

MORE NOW, LESS LATER

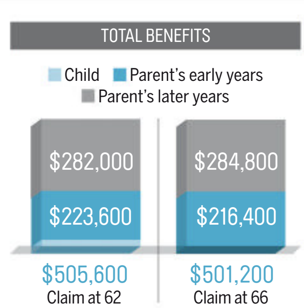
Since this is Social Security, count on complications. One is a limit on how much your family can get based on one worker's earnings. It's usually 150% to 180% of what you are due at full retirement age—$3,000 in this case—however many kids you have. In a two-income family, parents' combined records can enable a larger maximum.

Another twist: If you earn wages after filing at 62, Social Security's earnings test may reduce your family's benefits until you're 66.

Your lifetime benefits can suffer too. In the above example, starting in your mid-eighties the total money you'd get after claiming early would be less than what you would have collected starting at full retirement age. If you can afford to, you can avoid that by suspending your own benefits at age 66 and restarting them at 70 (see the example at left). The math is complicated, so work it out with a financial planner or use a calculator like MaximizeMySocialSecurity.com ($40), run by my co-author Laurence Kotlikoff. M

Why a Parent Might Claim Early

For a 62-year-old raising a child, collecting early can mean higher benefits earlier in retirement.



NOTES: Assumes 62-year-old parent with 14-year-old child; parent's yearly benefit is $12,565 at age 62; benefits suspended ages 66 to 70. SOURCES: Philip Moeller, MaximizeMySocialSecurity.com.

Philip Moeller, co-author of Get What's Yours: The Secrets to Maxing Out Your Social Security, *is now working on a companion book about Medicare.*

Don't Shortchange Your Retirement

MONEY WORRIES CAN MAKE YOU UNNECESSARILY FRUGAL. HERE'S HOW TO OVERCOME THEM. *by Donna Rosato*

YOU'VE SAVED UP MONEY your whole career. So in retirement, don't deny yourself the pleasure of spending it.

Not a problem, you think? Actually, it can be. In 2014, 28% of people 65 and older with at least $100,000 in savings pulled less than 1% from their accounts, reports the research firm Hearts & Wallets. That's well below the 4% that many financial planners say is safe.

Misgivings about spending play a big role, says Hearts & Wallets partner Laura Varas. In focus groups, retirees described big spenders their age as irresponsible and expressed shame about their own spending. And as people age, they tend to get more emotional about complex money decisions, says Christopher Browning, a financial planning professor at Texas Tech University: "No one gives you instructions on how to turn your savings into income. It can be a paralyzing process."

First determine if a shortage of money is the problem rather than an inability to spend. The tool at troweprice.com/ric can help you figure out whether you indeed have enough funds for a good retirement. Then, if it's worry that's stifling your spending, try these steps to put yourself at ease.

MAKE YOUR OWN PENSION

Living off a steady income stream, not portfolio withdrawals, can boost your confidence about spending. A Towers Watson survey found that retirees relying on pension or rental income are less anxious than those who live off investments. Don't have a pension and don't want to be a landlord? You can create regular income by buying an immediate fixed annuity. A 65-year-old man who puts $100,000 into one today, for example, would collect about $500 a month for a lifetime.

Add up your monthly fixed costs, such as a mortgage and health insurance. If that amount exceeds your Social Security and any other guaranteed income, fill that gap with an annuity. (Get quotes at ImmediateAnnuities.com.) Granted, if you're hesitant to spend money, you may be hesitant to lock up funds in an annuity. If so, annuitize a fraction of your money and add more once you're more comfortable with the idea.

BUCKET YOUR MONEY

Should you not want to tie up any money in an annuity, you can get comfortable about spending by dividing your portfolio into accounts for different needs. Browning suggests sorting your savings into three buckets. One provides income for everyday expenses over the next few years, the second is for fun pursuits, and the third is for future needs: day-to-day living, emergencies, and bequests.

Put the first two buckets in secure and liquid investments: money-market accounts, CDs, or high-quality bonds. The bucket for later years can have stock holdings for greater long-term growth.

Once that's done, you can start collecting income—a paycheck for retirement. Set up a regular transfer from a money-market account that's in your first bucket—enough to cover, with Social Security, monthly bills and usual expenses. Then relax and enjoy.

Illustration by JASON SCHNEIDER

Time for a Stock Detox

INVESTORS STILL AREN'T THIRSTING FOR HIGH-QUALITY COMPANIES WITH FIT FINANCES. YOU SHOULD. *by* **Carla Fried**

PROP STYLING BY SHANE KLEIN

AT THIS POINT in a recovery—when anxiety is on the rise because the economy and stocks have been advancing for years and the Fed is about to raise rates—"investors often seek shelter in quality," says Mark Freeman, chief investment officer at Westwood Holdings. That usually means companies with stable earnings and reliable (though not necessarily dazzling) growth.

Yet instead of favoring the Steady Eddies, Wall Street still has a taste for flashier fare. The S&P 500 Low Quality Rankings index—made up of headline-grabbing companies such as Amazon.com

Photograph by **YASU+JUNKO**

and Salesforce.com, both fast-growing firms that are having trouble generating reliable profits—has beaten high-quality stocks in four of the past six years.

While it's normal for speculative parts of the market to lead the way coming out of a bear market, as in 2009, the fact that they're still outperforming after more than six years is rather unusual.

This is especially true because high-quality shares generally do better over long periods. The Leuthold Group ranks the 1,500 largest stocks it tracks based on quality measures. Since 1986 the top 20% of shares based on quality rankings have generated annualized returns of 13.1%, vs. 9.7% for the lowest-quality stocks.

What's more, market and economic factors are shifting now and could soon give high-quality stocks a new tailwind.

WHY TASTES COULD CHANGE

The Fed factor. For years the Federal Reserve's effort to keep a lid on interest rates to spur the economy has benefited lower-quality companies that rely on debt to finance their operations. For starters, heavily indebted corporations have been able to refinance their debt on the cheap while borrowing greater amounts at attractive rates.

At the same time, cheap money has encouraged investors to take risks and chase higher returns, pointing them in many cases to lower-quality stocks offering fatter yields, notes John Fox, research director at FAM Funds.

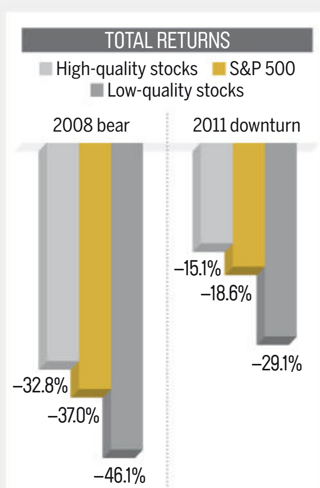
That's a gambit that has paid off—at least until now. "As the Fed begins to raise rates, the equation should change," says Fox. After all, investors may sour on low-quality stocks once cheap money dries up.

The 800-pound bear in the room. Something else to keep in mind is that this bull market has already run 2½ years longer than the typical rally—and has produced more than double the typical bull's gains. So it's not a stretch to think that equities are due for a pullback.

High-quality stocks are likely to lose less when the next downturn or bear market strikes, as the chart below shows. And while "it's not always obvious, generating the highest excess return in periods when the market is down is how you can outperform over the long term," says Brian Smith of Atlanta Capital Management, which invests in high-quality stocks.

The Case for Quality

In down markets, companies with stable earnings and strong balance sheets outperform.



SOURCE: S&P Dow Jones Indices

HOW TO BUILD A MOAT

It used to be that fund investors seeking quality stocks had to go with actively managed portfolios such as the **Yacktman Fund** (YACKX), which generates strong long-term returns by focusing on stable cash-generating cows.

Today there are several lower-cost index funds that cater to this strategy. For instance, **PowerShares S&P 500 High Quality ETF** (SPHQ) tracks blue-chip stocks with the most reliable earnings and dividend growth. When the market has been on the rise during the past five years, this ETF has managed to nearly keep pace. And when the market has fallen during that stretch, it has lost 17% less than the benchmark.

Market Vectors Morningstar Wide Moat ETF (MOAT) is another fund that will give your portfolio a tilt toward quality. The ETF tracks an index that focuses on the 150 or so companies that Morningstar analysts believe have strong sustainable competitive advantages, and thus are well positioned to churn out reliable earnings and profitability growth. Each quarter the index is reconfigured to hold the 20 stocks in this group that are trading at the steepest discounts.

Current holdings include Exxon Mobil and Berkshire Hathaway. The ETF's 4% gain in the past year is less than half that of the S&P 500. But in 37 of the past 38 five-year rolling periods, this index has beaten the S&P 500.

And ultimately, isn't that the best gauge of quality?

Caution: Bear Safeguards Ahead

IF YOU'RE WORRIED ABOUT A MARKET SELLOFF, SO-CALLED ALT FUNDS AREN'T YOUR ONLY ALTERNATIVE.

by John Waggoner

WITH ALL THE TALK of a possible bear market lurking just around the bend, it's no wonder that investors are terrified of stocks. In the past 12 months they've yanked $110 billion from U.S. equity portfolios.

So if you're a mutual fund company, what do you do? You promote funds that promise a big cut of the current bull market's gains while claiming to have a secret sauce for protecting investors when a selloff strikes.

Enter alternative funds, or "alts," which use strategies pioneered by hedge funds that will, theoretically, lessen a bear's bite. "Long/short" equity funds try to do that by betting on parts of the market while simultaneously betting against, or short-selling, other shares or sectors. "Market neutral" funds are similar, but they make equal-size bets on and against equities, neutralizing the impact of overall market swings. Gains come instead from the fund manager's ability to pick the right stocks to invest in or to short.

Is this bear protection worth it? Probably not, and here's why:

THE TRACK RECORD

Relatively few alt funds have even a five-year record, and that makes it tough to evaluate their efficacy—especially in a bear. **Schwab Hedged Equity** (SWHEX) is one of the few such funds with a long record, having beaten most of its peers over the past one, three, and five years. In the 2008 crash, it lost 17 percentage points less than the S&P 500. But the following year the fund trailed the market by 11 points, and over the past five years it has lagged by eight points annually.

One reason alts struggle over time is expenses. The average long/short fund charges 1.87%. The Schwab fund charges 1.33%, but that's still one point more than the fees on many stock index funds.

THE SIMPLER ALTERNATIVE

If dampening potential bear-market losses is your aim, adding exposure to bond funds or cash may be just as effective as hedging. And you may not even need to add that much more ballast if you're a diversified investor. A Vanguard study found that a simple 60% stock/40% bond portfolio can provide much of the same type of protection you're seeking from a hedge-fund-like strategy.

A 60/40 strategy held its own against many types of hedge funds in the 2007–09 bear, and it trounced long/short- and market-neutral-style hedge funds by more than 10 percentage points from March 2009 through the end of 2011.

Just remember: If you are living in terror of a bear market now but are investing for the next 20 years or longer, the last thing you want to do is hedge your portfolio in such a way that it leaves you poorer in the long run. M

John Waggoner has written three books on Wall Street and investing.

Illustration by TAYLOR CALLERY

X-Ray: Twitter

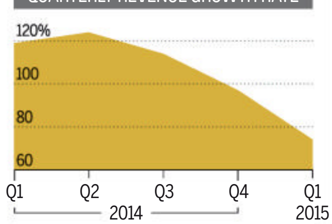
SLOWING GROWTH AND A CEO SEARCH WEIGH ON THE STOCK. *by Ryan Derousseau*

Wall Street has come to realize that connecting fans to celebrities, sports fanatics to game information, and the media to, well, the media via fleeting 140-character bursts will grow Twitter only so large. With 300 million users, this social media icon is still more than 1 billion shy of Facebook, whose footsteps it hopes to follow. The resignation of embattled CEO Dick Costolo won't change this fact. And now that ad revenue growth is also slowing, investors want to know if there's a growth plan in place, or if they should view the stock in another light—#buyouttarget.

Ad Growth Slows

Twitter's efforts at direct-response advertising haven't panned out.

QUARTERLY REVENUE GROWTH RATE



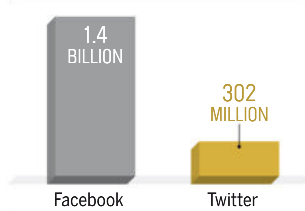
Though nearly 90% of Twitter's revenues come from advertising, the company must still prove to Wall Street that ad sales can keep growing over time, says Barclays analyst Paul Vogel. Twitter must also demonstrate to advertisers that its platform is effective at influencing consumers.

Yet in the first three months of 2015, revenue growth fell off sharply as new features encouraging users to take action—by making a phone call or downloading an app—did not provide much lift. The news sent the stock down by 25% in late April. In response, the microblogging site acquired TellApart for $533 million. The tech-based marketing firm helps advertisers target consumers across multiple devices, including laptops, tablets, and smartphones.

Size Matters

At its current growth rate, the site will still trail Facebook in scale.

MONTHLY ACTIVE USERS



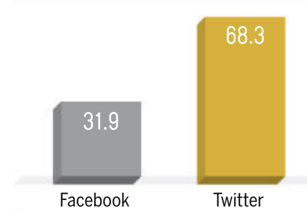
There's another slowdown to worry about, which plagued Costolo before his resignation in June. User growth, which soared more than 30% in 2013, slowed to 5% in the first quarter. At this pace, Twitter is likely to double to 600 million by 2020, according to Oppenheimer, but that's less than half Facebook's size now. This deceleration "has stymied Twitter," says Rosenblatt analyst Martin Pyykkonen.

To encourage sign-ups, Twitter has provided instant feeds so new users can see tweets from the likes of Katy Perry before registering. It also struck a deal with Google, ensuring more of its content shows up in searches. But product enhancements alone won't be enough to find the next 300 million users, says Oppenheimer Internet analyst Jason Helfstein.

Priced at a Premium

After a roller-coaster ride, the stock's valuation remains frothy.

PROJECTED P/E RATIO



Twitter's growing pains have led to rumors all year that it might be acquired. In late January, whispers that Google might want to purchase the network pushed Twitter's shares up 23% in two weeks. The result: Even with the late-April selloff, Twitter is "the fifth-most expensive-Internet stock," says Helfstein.

Costolo's departure—he was replaced on an interim basis by co-founder Jack Dorsey—won't stifle these rumors even as the company has reaffirmed its desire to go it alone. If Twitter isn't acquired, it must alter its ad model to reflect its niche audience or devise a strategy that can rival growth at places like Instagram, which now has more users. Trouble is, such a plan will take far more than 140 characters to convey.

NOTES: *Quarterly revenue growth is based on a year-over-year basis.* ***SOURCES:*** *Morningstar, YCharts, company reports*

HOW TO REACH

ONE MILLION

Money

COVER STORY

The seven-figure club may seem exclusive, but it's hardly small. There are now more than 10 million U.S. households worth $1 million or more. That means you're three times as likely to run into a millionaire as you are a schoolteacher. But it also means there are 10 million people who can teach you what it takes to join this not-so-secret society. MONEY scoured the latest research on who America's millionaires are and how they save, invest, and manage their careers to bring you their lesson plan. On the following pages, you'll learn the five essential moves that will make your millionaire dreams come true.

BY **KARA BRANDEISKY, ELAINE POFELDT, PENELOPE WANG,** AND **JACKIE ZIMMERMANN**

PHOTOGRAPHS BY **THE VOORHES**

LIVE BENEATH YOUR RISING MEANS

MOST RUN-OF-THE-MILL members of the seven-figure club don't live in mansions or drive around town in a Bentley—you're more apt to see them in a Honda, Toyota, or other non-luxury brand. You may even see some billionaires going cheap. Warren Buffett still lives in the same Omaha home he bought for $31,500 in 1958. Stanford professor David Cheriton, a billionaire from his early bets on Google, reportedly cuts his own hair.

This may have to do with how these folks got into this club in the first place. Most millionaires attribute their success not to making smart investments, but to saving early and often, according to a survey by PNC Wealth Management. And nearly 80% cite frugality as a key to success, a survey by the Spectrem Group found.

That doesn't mean you have to live an ascetic life. You can still enjoy a gradually improving standard of living as long as you keep the pace just a tad below the rate of your rising income.

YOUR MILLIONAIRE MOVES

Save half your raises. A surefire way to speed up your path to a seven-figure net worth is to sock away all the raises and bonuses you get. But as behavioral finance research shows, too much deprivation now may cause you to binge later.

The compromise: Bank some of your regular raises and bonuses—say, 50%, and spend the rest. Psychologically, "it's important to celebrate your successes," says Susan Mitcheltree, a financial planner in Lutherville-Timonium, Md. As the chart at right shows, if you start early, you can get to nearly $2 million by using this strategy, even assuming conservative gains.

Live large, just not in a big house. The standard rule of thumb for how much house you can afford is 28% of gross monthly income.

But who says you have to spend all 28%? Using this rule, a person making $80,000 could afford a $1,900 mortgage. Based on a 30-year loan at 4.25%, that puts the price at around $375,000. But if you dialed that back to 23% of income, you'd lower your payment to $1,500. Invest the savings at a modest 5%, and you'd have an added $333,000 over the life of the loan.

Also, who says you have to use a 30-year loan? Planner Ron Rogé prefers 15-year mortgages because of the "hundreds of thousands of dollars" in potential savings. Using the 28% example, a 15-year loan at 3.5% would save you $168,000 in interest over a 30-year loan at 4.25%. And once the loan is paid, you're free to invest $1,900 a month for the next 15 years, netting another $500,000.

Debra Cohen, 48, found another way to save. Rather than move to a $1.3 million, 3,200-square-foot home in 2007, the small-business owner and her husband gradually added features to their 2,300-square-foot, $650,000 Long Island home, including a home office. They spent more than $150,000 renovating. But by staying they paid off their mortgage three years ago and saved $400,000 over the past decade.

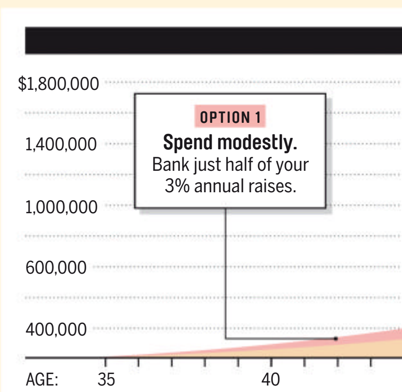
Make the most of what you spend. One way to keep a lid on spending—on things like cars or the latest tech toys—is to maximize the satisfaction you derive from the purchases you do make.

A recent *Journal of Consumer Psychology* paper found that people experience much deeper satisfaction when they buy "experiences" like vacations rather than things like furniture or clothing. That's in part because we're happiest when we're spending time with people we love. So if you plan to spend part of that raise, think about a family trip to Hawaii rather than buying that luxury car.

TWO PATHWAYS TO $1 MILLION

Even with 3% annual raises, a 35-year-old earning $75,000 and saving 10% of pay will fall short of $1 million if he spends his entire pay hike. What to do?

NOTE: Assumes a 10% savings rate (seven percentage points from savings, 3% from company match) and annual investment returns of 5%. SOURCE: MONEY research



MANAGE YOUR CAREER AS IF YOU OWN THE PLACE

ROUGHLY TWO IN FIVE Americans worth $5 million or more are senior executives, managers, or business owners, according to research by Spectrem Group. A separate look at high-net-worth households by Phoenix Marketing International found that nearly 20% owned at least part of a closely held business or partnership last year. In other words, millionaires are decision-makers who have a real stake in the companies they own or help run. By thinking and acting as they do when it comes to your professional life, you can boost your income even if you work for someone else. "You are the CEO of your own career," says Jaime Klein, founder of Inspire Human Resources.

YOUR MILLIONAIRE MOVES

Aim to boost your company's bottom line. Research has found that the most important quality shared by entrepreneurs who build multimillion-dollar businesses—beyond risk taking—is having a strong profit-driven focus. As an employee, doing the same will elevate your standing and set you up for bigger raises and bonuses.

The average pay hike this year for salaried, exempt employees is just 3%, according to Aon Hewitt. But highly rated workers are expected to earn nearly 5% raises, according to Mercer. That may not sound like much more, but an extra two-point hike periodically—say, once every five years—can mean the difference between getting to $1 million and falling short (see chart below).

How to get such a raise? When you suggest new ideas or projects, make it clear to your boss exactly what the impact will be on the firm's profit and loss statement, says Rohit Arora, CEO of Biz2Credit.

"No matter where you are in the organization, your role is critical," says Klein. She notes, for instance, that if this quarter's goal is reducing spending and you work in procurement, look for vendors that can give bulk discounts.

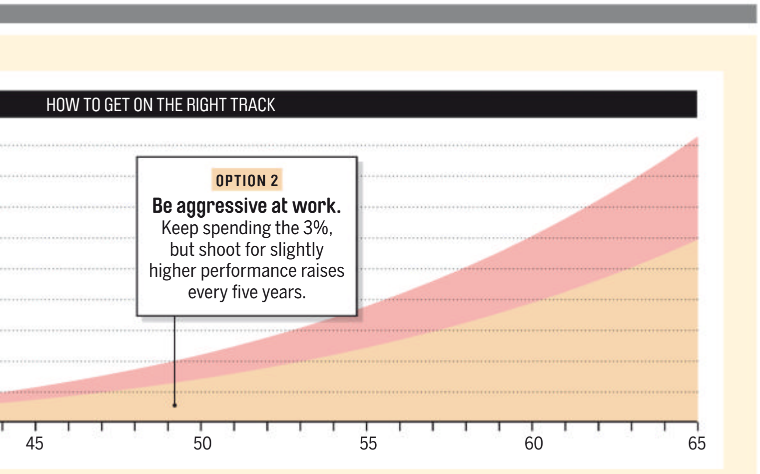
Go for the kill. In addition to higher raises, go after performance bonuses, says executive coach Stefanie Smith at Stratex Consulting. Show your company you really have a stake in its bottom line by asking your boss to set a goal based on a critical corporate target. "Leaders love data," Klein says. "You could say if your team hits the deadline without incurring added overtime or external contractors, you'd be in line for a 10% bonus." From the company's perspective, a 10% bonus for you will pale in comparison to the savings achieved. And for you, it provides fuel to turbocharge savings.

Get paid by moving on. Many small-business owners are "serial entrepreneurs," willing to shift gears to start new ventures when they know it's time, a study by the Ewing Marion Kauffman Foundation found.

Embrace that sensibility. Execs who changed jobs last year averaged a 16% pay increase, according to the executive-search firm Salveson Stetson Group. Just make sure you move to a firm where the skills you offer are vital.

Take Warren Colter, who last summer set his sights on getting a chief marketing officer job in Atlanta. The fiftysomething emphasized four key areas on his LinkedIn profile where he'd added value to past employers—for instance by increasing market share. Shortly after updating his profile, he heard about a CMO position with a German firm with offices in Atlanta.

By November he had gotten the job, where his earnings potential could increase by up to 15%, provided he meets certain benchmarks.



BE A BORING INVESTOR

MOST MILLIONAIRES don't rely on complicated strategies to attain wealth. More than three-quarters of a typical millionaire's portfolio is held in a basic mix of stocks, bonds, and cash—with some real estate and annuities mixed in, according to Phoenix Marketing. As for exotic fare such as private equity or art, only 5% to 7% of the average affluent person's wealth is tied up in those investments. And just one in eight high-net-worth households even owns a hedge fund, according to a survey by U.S. Trust.

That sure sounds a lot like the strategies regular investors use. So why do millionaires do so much better? Well, for one, they actually stick with their plain-vanilla strategy and don't let market swings or hot performance sway them. And they pay greater attention to the small stuff that can nick returns over time.

That will be particularly important going forward. "Given today's stock valuations and low interest rates, it would be safer to assume returns that are 1.5 to four percentage points lower than historical averages," says Hal Ratner, head of research for Morningstar Investment Management. For a balanced 60% stock/40% bond portfolio, you're looking at returns closer to 5% rather than the historic 8.6%. Here are ways to boost that result:

YOUR MILLIONAIRE MOVES

Embrace your passive side. Nearly a third of those with ultra-high net worth—folks with $5 million or more—are interested in investing in low-cost ETFs this year, Spectrem found. Among those worth less than $1 million, it's just 14%.

What do the wealthy know? That passively managed index funds and ETFs outpace actively managed funds over the long term, thanks to their lower costs. In the 10 years ending in December 2014, the S&P 500 returned an annualized 7.7%, while the typical actively managed blue-chip fund gained 6.6%. A $100,000 investment will hit $1 million in 37 years at 6.6% rate. But at 7.7%, you'll get there five years sooner.

The Oracle of Omaha gets this. In his will, Buffett left instructions for the trustee managing his wife's estate to go with index funds, preferably Vanguard's. "I believe the trust's long-term results from this policy will be superior to those attained by most investors—whether pension funds, institutions, or individuals—who employ high-fee managers," he wrote. (Vanguard's John Bogle weighs in on Buffett's bequest in "Has the Index Fund Won?" on page 74.)

Fend off Uncle Sam. Four in five millionaires say taxes are a major factor in

their investment decisions, according to Spectrem. For good reason. Research by Vanguard and T. Rowe Price shows you can lose as much as two percentage points annually to taxes. Yet there are plenty of ways to make some of that up.

How? Here again, index funds help. Over the past 15 years stock index funds have lost 0.8 percentage point less a year to taxes than actively managed portfolios.

Next, be mindful of where you keep your investments. Buy-and-hold equity index funds, because of their inherent tax efficiency, can be held in taxable accounts. But funds that throw off short-term capital gains or interest income, such as actively managed growth funds or bond funds, should be stashed in tax-advantaged plans like 401(k)s and individual retirement accounts.

Yet an analysis of Vanguard IRA customers found that only two in five are keeping their active equity funds in IRAs and only 18% own their bond funds there. That's a costly mistake. Vanguard found proper "asset location" can boost the value of a balanced portfolio by up to 11% over a decade.

If you must hold stock funds in a brokerage account, go with a tax-managed option. **T. Rowe Price Tax-Efficient Equity** (PREFX) minimizes taxes through various means, including selling losing shares to offset gains. That has helped it beat the S&P 500 by an average of nearly one point a year for the past decade.

Curb your enthusiasm. It's hard to resist the temptation to chase a highflier. But ultra-high-net-worth investors, Spectrem found, consider past performance far less than risk, diversification, taxes, and reputation when it comes to picking an asset or security.

That approach helps preserve gains. Morningstar found that investors lost 2.5 points a year on average over the past decade by chasing what's hot and getting in too late, rather than buying and holding.

Focus instead on strategies that can help you manage your own behavior. A study last year at Goethe University Frankfurt found that households that successfully built wealth had better self-control as measured by their ability to set goals, monitor their portfolio, and commit to their objectives.

To improve your self-control, automate your investing as much as possible, says Ben Carlson, a money manager and author of *A Wealth of Common Sense*. For instance, 60% of 401(k)s offer auto-rebalancing. Set it up and you won't balk at making the tough decision to buy low and sell high.

Don't swing for the fences. Millionaires are actually quite risk-conscious. U.S. Trust found that only a third of high-net-worth investors are willing to take more risk to earn higher returns. That explains why about two-thirds of the group stash 10% or more of their portfolios in cash.

This isn't entirely about fear. Millionaires worry about valuations. And the price/earnings ratio for stocks—based on 10 years of averaged profits—is at a level not seen since the financial crisis and dotcom bubble. Like them, you shouldn't feel compelled to use every last dime to buy stocks if you fear prices are too high.

FOCUS AS MUCH ON INCOME AS ON GAINS

THE TYPICAL MEMBER of the seven-figure club earns a nice paycheck, but it's not hedge fund money. The median salary for millionaires who are still employed is $200,000, according to Fidelity. That pay, though, is often supplemented by other streams of income. Among high-net-worth baby boomers (working and retired), investment income represents 47% of total income, according to U.S. Trust. For older millionaires, it's 76%. Here are three ways you can start making your money work for you:

YOUR MILLIONAIRE MOVES

Embrace rising stock dividends. There's a reason millionaires are fond of stock dividends. They help you boost wealth in a couple of ways. Companies that return profits to shareholders don't just offer you the periodic cash payout, which you can spend or reinvest; their shares have historically appreciated more than other equities over time (see chart at right).

In aggregate, the 200 highest-yield stocks among the largest 1,000 U.S. companies delivered average returns of 12.3% between 1964 and 2014, according to Research Affiliates. By contrast, all stocks returned 10.2%. That 2.1 percentage point gap is the difference between turning $100,000 into $1 million in 20 years and falling short by $300,000.

The catch is, some companies with lofty yields may not be able to keep paying them out, says Chris Brightman, Research Affiliates' chief investment officer. You've got a couple of options to deal with this risk. One is to focus on the highest-quality dividend payers (for more on high quality, see "Time for a Stock Detox" on page 41).

Another is to stick with companies that can consistently boost their payouts. Ned Davis Research found dividend-growing stocks have gained 2.4 points more a year than stocks with flat payouts. Two ETFs that focus on quality and dividend growth are **SPDR S&P Dividend** (SDY) and **PowerShares International Dividend Achievers** (PID), both on our MONEY 50 list of recommended funds and ETFs. (For more about the dividend aristocrat strategy, see Ask the Expert on page 28.)

Don't give up on bonds. With rates expected to rise, conventional wisdom says to trim your fixed-income stake or hide in short-term bonds. But you may be doing yourself a disservice. Since 1976, 90% of returns from bonds have come from income, with only 10% from price changes, according to Schwab.

If rates were to rise by one point over five years, an intermediate-bond fund yielding 3% would fall 4%, according to a Schwab analysis. But thanks to continued interest payments, the fund would break even in 3½ years, and by the sixth year would be ahead 12%.

Diversify your income through rents. While many millionaires reached their goals by being landlords, most do not consider it a full-time undertaking. Just 5% to 6% of high-net-worth portfolios were made up of income-producing real estate, according to Phoenix Marketing.

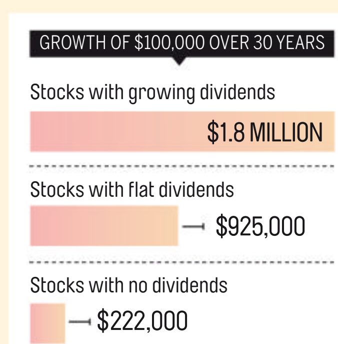
Still, even a modest stake in real estate can help you reach your goals. That's what Alison Doyle found. Doyle, 59, recently retired from the legal profession. During her working years, her rental units—a duplex in Buffalo and two condos in Washington, D.C.—represented just 10% to 12% of her total income.

Now that she's retired, those rents play an even more important role—the income plus her savings allow her to let her 401(k) grow unfettered.

Don't want to be a landlord? Then go with a real estate fund says New York City financial planner Andrew Altfest. The **Vanguard REIT Index** (VGSIX) and **Cohen & Steers Realty** (CSRSX) are both in the MONEY 50.

TURBO-CHARGE YOUR INCOME

A simple way to boost returns—and shorten your path to $1 million—is to invest in stocks with rising dividends.



NOTE: Based on performance.
SOURCE: Ned Davis Research

FEEDBACK: letters@moneymail.com

MAKE FEAR YOUR GUIDING PRINCIPLE

YOU'D THINK that wealth would buy you some comfort. Creature comforts, perhaps, but not freedom from stress. Most high-net-worth households believe they are financially secure, according to a U.S. Trust survey. But a separate study by UBS found that two-thirds of families worth $1 million to $5 million—and who have children at home—fear one major crisis could set them back dearly. In general, more than a third of this group are worried about being able to retire when they want, according to Spectrem. Use this fear as motivation.

YOUR MILLIONAIRE MOVES

Build yourself a cash cushion. What kind of crises are millionaires worried about? Job losses for sure, but also a market crash.

Imagine you get to seven figures just as you're retiring, and you plan to withdraw 4% a year to cover living expenses. Then a bear market strikes, and your portfolio drops 30%.

With a smaller nest egg, you'll now need to withdraw nearly 6% to fund your life—a withdrawal rate that will jeopardize the sustainability of your funds. Plus, your $1 million is now worth only $660,000.

To make sure this never happens, keep enough cash on hand to cover your expenses for one to two years. In a *Journal of Financial Planning* study, financial planner Harold Evensky found that retirees with a one-year cash reserve are less likely to run out of money than retirees who are trying to live off their investments alone.

You don't need to wait until retirement to implement this. Research by retirement expert Wade Pfau shows it makes sense to trim your equity exposure before you head into retirement to avoid this very scenario. You can do this by adding to cash. But keep your savings in two buckets: one for the long haul, and one for short-term costs.

Prepare for health emergencies. Among millionaires worried about depleting their nest eggs, most cite the cost of health care as a potential factor, according to Spectrem.

The Employee Benefit Research Institute estimates that men who turned 65 last year would need $116,000 and women would need $131,000—on top of their nest eggs—to have a 90% chance of covering their health expenses.

You have a powerful tool in your arsenal: a health savings account. If you have a high-deductible health plan, you can use an HSA to save pretax dollars, invest tax-free, and withdraw your savings tax-free to spend on medical expenses. "It's the only savings vehicle out there that has the triple tax advantage," says Paul Fronstin, director of health research with the Employee Benefit Research Institute.

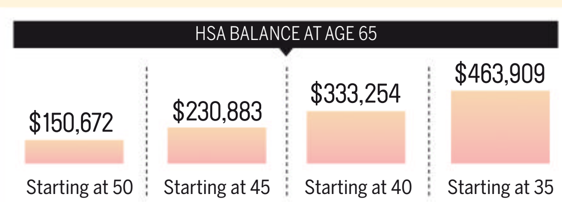
Insure against disaster. As your pockets deepen, you become more vulnerable to another financial risk: lawsuits. "When you look at the biggest dollar risk out there, it's liability," says Laura Adams, senior analyst at InsuranceQuotes.com, noting that your savings may be in jeopardy if you get into a car accident or are involved in a costly lawsuit.

Once your net worth outstrips the amount of liability coverage you have on your auto or home insurance—which generally happens when you're worth half a million—it's time to get an umbrella liability policy, Adams says. Umbrella insurance will pay legal fees and settlement costs beyond what your car, home, or rental insurance policies will cover. Pay about $300 a year in premiums to protect up to $1 million, according to the Insurance Information Institute.

Okay, this isn't the sexiest move you can make. But if millionaires can teach you anything, it's that boring and prudent pays off handsomely in the long run. M

CREATE YOUR OWN SAFETY NET

Among millionaires worried about depleting their nest eggs, many cite health care costs as a big factor. The earlier you start investing in a health savings account, the better.



NOTE: *Assumes a 5% annual return and saving today's annual family limit of $6,650.*
SOURCE: *MONEY research*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THE BIKE-FRIENDLY CAMPUS OF NO. 1 STANFORD UNIVERSITY

Photograph by **LEAH FASTEN**

THE BEST COLLEGES FOR YOUR MONEY

WITH COSTS RISING AND THE STAKES HIGH, THE COLLEGE SEARCH PROCESS HAS BECOME TOUGHER THAN EVER. OUR SECOND ANNUAL VALUE RANKINGS WILL HELP YOU AND YOUR CHILD FIND THE RIGHT SCHOOL AT THE RIGHT PRICE.

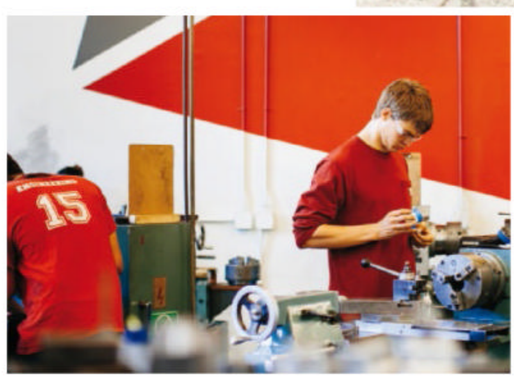
BY KIM CLARK

W**HEN IT COMES TO** picking a college, the quest for value has taken center stage. Schools are handing out brochures touting their job-placement records (without much to back up the stats). New programs let you test your way to a degree for just a few thousand dollars. And so far this year, Americans have searched Google using the words "college" and "value" 1.1 million times a month, a 10% jump over 2014.

Even the government is getting into the act, or trying to. In June the Obama administration succumbed to two years of opposition from colleges and abandoned efforts to rate them based on value. Instead, it will simply launch web tools in the fall that will let you screen colleges by data such as tuition, graduation rates, and post-graduate success. Meanwhile, 2016 presidential candidates on both the left and the right are appealing to voters with promises of helping students graduate "debt-free" or get "workforce-ready" degrees.

The reason for this heightened focus on value is obvious to anyone who has priced out college recently. Even after accounting for the typical amount of financial aid and tax breaks, the total cost of a BA from a public university will come to about $75,000; at a private college the average family should budget for $115,000-plus. Not likely to be eligible for aid? That bill could top $250,000.

The result: high anxiety among families about the value proposition of a college education. In a recent survey for CreditCards.com, 31% of adults reported losing sleep over college costs. "The debate has moved front and center as college has gotten more expensive," says Rachel Fishman, an education policy analyst at think tank New America. "Students are investing all of this time and money in their future, and they wonder, What am I actually getting?"



To help parents and students answer that question, MONEY has once again set out to find great schools that are truly worth the investment. With our second annual Best Colleges rankings, we've identified more than 700 colleges that deliver a quality education that launches students on a successful career at a price your family can afford.

Mark Schneider, former head of the National Center for Education Statistics and current president of College Measures, collaborated with MONEY to develop the rankings, which evaluate the schools on 21 measures of educational quality, affordability, and career earnings. The careers website PayScale.com provided earnings data for the schools' alumni, as well as analysis of those earnings based on what types of majors predominate at the schools. (For more, see "How We Did It" at right or read the full methodology at money.com/colleges.)

Coming in at No. 1 this year is Stanford University, where innovative

PHOTOGRAPHS BY LEAH FASTEN

"THE FARM," AS STANFORD STUDENTS REFER TO THEIR VAST CAMPUS, GROWS HIGH EARNERS.

NO. 1 OVERALL

Stanford University

Survey students about their No. 1 dream college nowadays, and the most common answer is Stanford. In MONEY's Best Colleges ranking this year, the college pulls off another No. 1.

No wonder: Like other top colleges, it boasts Nobel-winning geniuses and legendary teachers. But Stanford's emphasis on innovative teaching methods puts it ahead of the pack for both techies and "fuzzies" (a nickname for humanities majors). The coursework and connections to Silicon Valley are key reasons recent Stanford grads report pulling down salaries of $64,400—about $4,000 more than the average reported by Ivy League graduates.

Stanford is also generous with aid. This year it raised the size of grants for low- and moderate-income students. Families earning less than $65,000 would spend no more than $5,000; those earning $125,000 would spend less than $20,000.

Although its popularity makes it the most selective school in the country—only 6% of applicants get in—students and professors report little elitism. "There's no doubt they're incredibly intelligent students," says Shimon Tanaka, who teaches a graphic novel course. "But I don't see any intellectual or personal snobbiness. I see passion for learning, a willingness to work hard, and an openness to new ideas."

teaching, generous aid policies, and average alumni earnings well above even Ivy League standards combine to give students an educational experience that shines on all counts (see profile above). But our Best Colleges list also underscores that it's not just elite institutions that can deliver a great education and a leg up in the workforce—at a price you can handle. Our rankings include many places that don't typically show up on best lists, such as College of the Ozarks (No. 26), where students work in lieu of paying tuition, and Maine Maritime Academy (No. 8), a public college specializing in business, engineering, and marine biology. "A school's name isn't everything. Results are," says Schneider. "You may be surprised that schools you may never have heard of will give you a better shot at success."

As you browse our rankings, keep a few things in mind. Some of the data used to evaluate colleges are imperfect. The test scores of incoming freshmen are self-reported by colleges. The earnings estimates are based on voluntary

HOW WE DID IT

To make our first cut, a college had to have a six-year graduation rate that was at or above the median for its category (public or private). We then screened out schools with speculative bond ratings from Moody's and those flagged as having financial problems by the U.S. Department of Education. That left more than 700 schools, which we ranked on 21 factors in three equally weighted categories:

QUALITY OF EDUCATION Measured by the school's six-year graduation rate, student standardized-test scores, the student-faculty ratio, Rate My Professors grades, and the value-added graduation rate, which reflects the difference between a school's actual grad rate and its expected rate, based on the economic and academic background of the student body.

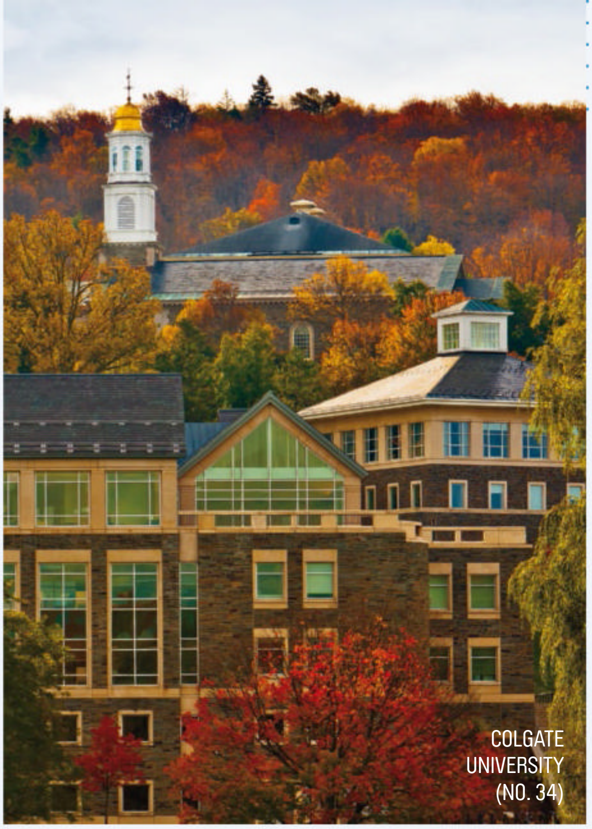
AFFORDABILITY Determined by student and parent borrowing and student-loan default rates (unadjusted and value added), federal data on affordability for low- and moderate-income students, and the estimated average net price of a degree, which takes into account a school's sticker price, tuition inflation, institutional financial aid, and the typical time needed to graduate.

OUTCOMES This includes early (within five years of graduation) and mid-career earnings data from PayScale.com, plus adjustments for value added and majors, plus a Brookings Institution skills analysis, career-services staffing and programs connecting students with alumni.

*For a complete description of our methodology, go to **money.com/colleges.***

MONEY'S BEST COLLEGES 2015–16

Which of the country's roughly 1,500 four-year colleges deliver the most value—that is, a top-notch education that sets students up for a successful career at a price your family can afford? To find out, MONEY screened out schools with financial troubles or graduation rates below the median, then ranked the more than 700 remaining colleges on 21 factors in three equally weighted categories: educational quality, affordability, and alumni earnings. Those included a "value added" grade that rated each college in light of the economic and academic background of its students. For the full rankings, go to money.com/colleges.



COLGATE UNIVERSITY (NO. 34)

PHOTOGRAPH BY ANDREW M. DADDIO/COURTESY OF COLGATE UNIVERSITY

RANK	SCHOOL	ESTIMATED PRICE OF DEGREE		VALUE ADDED GRADE	AVERAGE STUDENT DEBT	EARLY CAREER EARNINGS	AVERAGE SAT/ACT SCORE	% ADMITTED	CAREER SERVICES
		FULL STICKER	NET PRICE AFTER AID						
1	STANFORD UNIVERSITY ▸ Stanford, Calif.	$280,126	$96,704	B+	$3,270	$64,400	1475/33	6%	A–
2	BABSON COLLEGE ▸ Babson Park, Mass.	$267,402	$116,301	A	$12,236	$60,100	1255/28	28%	A
3	MASSACHUSETTS INSTITUTE OF TECHNOLOGY ▸ Cambridge, Mass.	$263,848	$100,708	B+	$6,482	$72,500	1500/34	8%	A
3	PRINCETON UNIVERSITY ▸ Princeton, N.J.	$248,557	$91,381	B+	$1,563	$60,500	1505/33	7%	A
5	CALIFORNIA INSTITUTE OF TECHNOLOGY ▸ Pasadena	$264,638	$116,443	B	$6,098	$72,300	1545/34	11%	A
6	HARVARD UNIVERSITY ▸ Cambridge, Mass.	$268,832	$77,046	B+	$2,306	$60,000	1505/34	6%	A
6	HARVEY MUDD COLLEGE ▸ Claremont, Calif.	$281,137	$149,678	B+	$9,124	$76,400	1480/34	18%	A
8	MAINE MARITIME ACADEMY ▸ Castine, Maine	$115,888	$78,768	A	$32,402	$67,600	1025/22	65%	A–
9	AMHERST COLLEGE ▸ Amherst, Mass.	$271,914	$78,589	B+	$2,610	$55,700	1440/32	14%	A–
9	COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART ▸ New York City	$271,544	$83,976	B–	$3,838	$63,300	1355/31	8%	A–
9	UNIVERSITY OF CALIFORNIA AT BERKELEY ▸ Berkeley	$156,600	$102,277	A–	$7,301	$58,300	1355/30	18%	C+
12	UNIVERSITY OF PENNSYLVANIA ▸ Philadelphia	$274,794	$104,986	B+	$5,712	$59,200	1450/32	12%	A
13	UNIVERSITY OF CALIFORNIA AT IRVINE ▸ Irvine, Calif.	$143,649	$105,233	A	$10,401	$49,600	1130/24	42%	B
14	RICE UNIVERSITY ▸ Houston	$244,257	$91,326	B–	$4,971	$61,200	1460/33	17%	A–
15	BENTLEY UNIVERSITY ▸ Waltham, Mass.	$251,947	$141,244	A–	$15,311	$57,300	1225/28	44%	A–
15	BRIGHAM YOUNG UNIVERSITY ▸ Provo, Utah	$92,615	$70,080	A–	$3,726	$51,600	1255/29	49%	B–
17	UNIVERSITY OF VIRGINIA ▸ Charlottesville, Va.	$118,261	$40,147	B+	$7,615	$53,400	1355/31	30%	A–
18	UNIVERSITY OF MICHIGAN ▸ Ann Arbor	$126,142	$60,653	B	$10,650	$56,500	1380/30	33%	A–
19	CLAREMONT MCKENNA COLLEGE ▸ Claremont, Calif.	$276,369	$115,461	B+	$5,724	$55,500	1410/31	12%	A

NOTES: *Sticker price of a degree is the total cost of tuition, fees, room, board, books, travel, and miscellaneous expenses for the average length of time it takes students to complete a bachelor's degree. Net price of a degree is the cost paid by students who receive the average-size grant or scholarship awarded by that school. Value-added grade reflects how much better that school's students perform, on average, on graduation rates, student-loan*

RANK	SCHOOL	ESTIMATED PRICE OF DEGREE		VALUE ADDED GRADE	AVERAGE STUDENT DEBT	EARLY CAREER EARNINGS	AVERAGE SAT/ACT SCORE	% ADMITTED	CAREER SERVICES
		FULL STICKER	NET PRICE AFTER AID						
20	TEXAS A&M UNIVERSITY ▸ *College Station, Texas*	$97,457	$67,512	B+	$9,137	$54,000	1180/26	69%	B
21	DARTMOUTH COLLEGE ▸ *Hanover, N.H.*	$281,649	$95,030	B	$10,687	$56,900	1455/32	10%	A
21	DUKE UNIVERSITY ▸ *Durham, N.C.*	$273,728	$89,450	B	$8,686	$59,200	1455/32	13%	A
21	YALE UNIVERSITY ▸ *New Haven*	$273,825	$76,510	B–	$1,173	$54,500	1500/34	7%	A–
24	VANDERBILT UNIVERSITY ▸ *Nashville*	$269,460	$87,906	B–	$3,537	$56,900	1490/33	13%	A–
24	WASHINGTON AND LEE UNIVERSITY ▸ *Lexington, Va.*	$258,138	$71,098	B	$7,589	$53,700	1385/32	18%	A
26	COLLEGE OF THE OZARKS ▸ *Point Lookout, Mo.*	$126,355	$72,958	A	$732	$34,800	1035/23	13%	B+
26	UNIVERSITY OF CALIFORNIA AT LOS ANGELES ▸ *Los Angeles*	$153,344	$101,810	A–	$9,091	$50,600	1300/28	22%	B+
28	COLUMBIA UNIVERSITY ▸ *New York City*	$284,739	$100,431	B–	$5,530	$59,500	1480/33	7%	A
28	WILLIAMS COLLEGE ▸ *Williamstown, Mass.*	$273,054	$92,893	B–	$5,263	$50,900	1445/32	17%	A
30	GEORGIA INSTITUTE OF TECHNOLOGY ▸ *Atlanta*	$119,847	$79,488	B–	$10,800	$62,000	1360/30	55%	B+
30	UNIVERSITY OF FLORIDA ▸ *Gainesville, Fla.*	$90,614	$64,906	B+	$7,203	$48,900	1265/29	47%	B
32	BROWN UNIVERSITY ▸ *Providence*	$270,684	$105,447	B	$5,310	$54,500	1435/32	9%	A–
32	UNIVERSITY OF CALIFORNIA AT SAN DIEGO ▸ *La Jolla, Calif.*	$149,573	$107,845	A	$10,125	$51,300	1280/28	38%	B+
34	COLGATE UNIVERSITY ▸ *Hamilton, N.Y.*	$263,894	$102,393	B	$1,907	$52,900	1365/31	26%	A
34	CORNELL UNIVERSITY ▸ *Ithaca, N.Y.*	$273,190	$112,280	B	$7,467	$58,200	1420/32	16%	A
36	UNIVERSITY OF WASHINGTON AT BOTHELL ▸ *Bothell, Wash.*	$139,745	$100,050	A	$8,643	$51,500	1020/21	76%	B
37	BUCKNELL UNIVERSITY ▸ *Lewisburg, Pa.*	$267,655	$141,253	B+	$10,934	$56,000	1300/30	30%	A
38	CARNEGIE MELLON UNIVERSITY ▸ *Pittsburgh*	$282,258	$168,368	B–	$12,996	$63,400	1435/32	25%	A
38	POMONA COLLEGE ▸ *Claremont, Calif.*	$261,415	$91,794	B–	$5,648	$48,900	1460/33	14%	A
38	UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS ▸ *Winston-Salem, N.C.*	$98,465	$70,039	A–	$17,407	$55,000	1115/23	45%	B+
41	HAMILTON COLLEGE ▸ *Clinton, N.Y.*	$261,749	$99,891	B	$6,034	$54,500	1385/31	27%	A
41	MANHATTAN COLLEGE ▸ *Riverdale, N.Y.*	$237,358	$155,092	A	$24,311	$57,100	1080/25	66%	B+
43	UNIVERSITY OF CALIFORNIA AT DAVIS ▸ *Davis, Calif.*	$163,418	$115,903	A	$11,010	$50,300	1195/26	45%	B
44	ROBERT MORRIS UNIVERSITY ILLINOIS ▸ *Chicago*	$171,681	$125,704	A	$23,468	$39,600	860/18	21%	A–
44	UNIVERSITY OF NOTRE DAME ▸ *Notre Dame, Ind.*	$264,491	$117,763	B–	$10,060	$55,600	1430/33	22%	A
46	LEHIGH UNIVERSITY ▸ *Bethlehem, Pa.*	$258,844	$125,704	B+	$16,307	$60,000	1315/30	31%	A–
46	THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL ▸ *Chapel Hill, N.C.*	$109,397	$55,156	B–	$6,947	$45,300	1305/30	28%	B+
48	STEVENS INSTITUTE OF TECHNOLOGY ▸ *Hoboken, N.J.*	$279,597	$164,437	B+	$32,867	$67,300	1300/30	38%	A–
48	VIRGINIA MILITARY INSTITUTE ▸ *Lexington, Va.*	$121,987	$65,595	B–	$17,510	$53,400	1150/25	47%	A–
48	VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY ▸ *Blacksburg, Va.*	$125,437	$93,949	B+	$13,908	$53,900	1220/N.A.	70%	B
48	WORCESTER POLYTECHNIC INSTITUTE ▸ *Worcester, Mass.*	$261,681	$171,434	B+	$27,411	$63,200	1165/26	52%	A
52	BEREA COLLEGE ▸ *Berea, Ky.*	$147,578	$40,900	A	$1,784	$31,900	1130/24	34%	B
52	MARTIN LUTHER COLLEGE ▸ *New Ulm, Minn.*	$101,798	$81,544	A	$18,819	$31,700	1100/25	96%	C+

defaults, and earnings than would be expected given their economic and academic background (measured by the percentage of Pell Grant recipients and average standardized test scores and, for earnings, the mix of majors). Estimated average total loan balance on graduation. Average annual self-reported earnings for respondents who graduated within the past five years. Career-services grade is based on the number of career-services staff per 1,000 undergraduates and whether or not the school has a program that connects job-seeking undergraduates with working alumni. ***SOURCES:*** *IPEDS, Peterson's, PayScale.com, MONEY/College Measures calculations*

NO. 1 VALUE ALL-STAR

Robert Morris University Illinois

Thirty years ago, Robert Morris was an obscure two-year secretarial school in downtown Chicago. Today it's a little-known (though increasingly well-regarded) four-year career-focused university—and MONEY's top Value All-Star.

What lands the school in the No. 1 spot is its impressive track record of helping disadvantaged students excel. The average student managed just B-minuses in high school; two-thirds come from low-income families. But thanks to small classes and close personal attention—counselors call those who miss classes—80% of students graduate. That's roughly twice the rate of schools with similar students.

RMU isn't for everyone. While undergrads have some liberal arts requirements, entering freshmen must declare a profession-oriented major. That job focus pays off: On average, recent grads report a salary of about $40,000, some $8,000 higher than what you'd expect for the student body.

The school offers so many different scholarships that 80% of its students get grants. More than 30 varsity sports teams offer athletic scholarships, including an electronic-gamers team (a first in the nation).

PHOTOGRAPHS BY SARA STATHAS

surveys. Plus, schools within 20 or so places of one another are roughly the same, especially at the top. But paired with your own research and visits, these rankings can be a valuable guide to where your tuition will go the furthest.

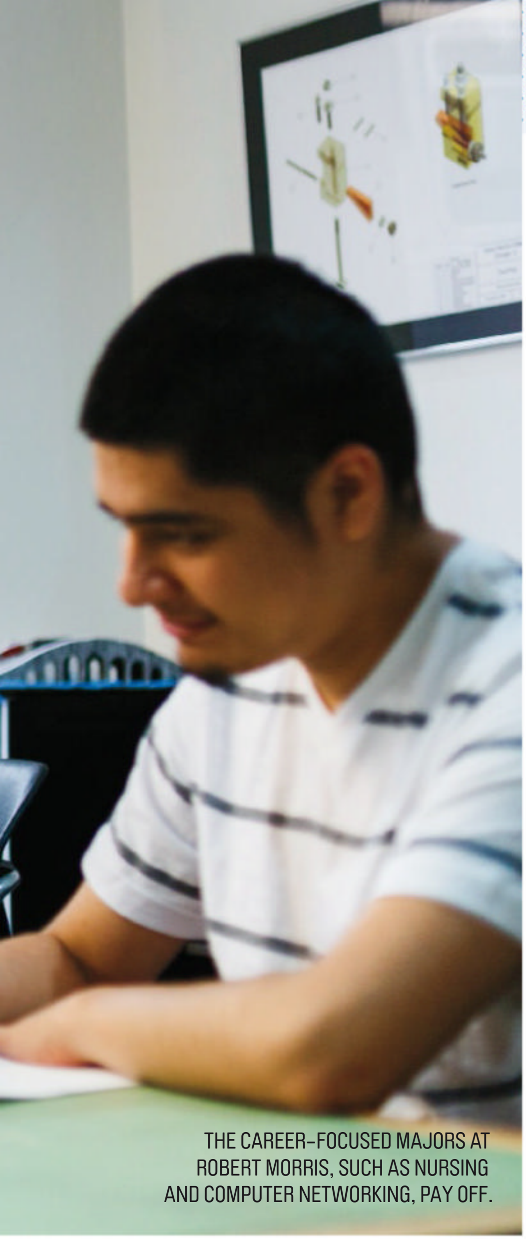
The best-value colleges aren't necessarily the cheapest. But studies show, and our rankings confirm, that key aspects of the college experience are worth paying more for. So as you set out to find the best college fit for your student, pay attention to these five important signs that a school is a true value.

HELP GETTING YOU TO THE GOAL

At its most basic, the job of a good college is to enable students to get a degree, preferably in the four years that's promised. Sounds simple, and yet it's a high hurdle at many colleges—on average, only 39% of students graduate in four years. Even finishing in six—the standard gauge calculated by the federal government—can be a challenge.

With how much you've learned in college tough to judge, a school's graduation rate is generally recognized as the most important measure of educational quality. In part, that's because students who feel that a college is wasting their time will vote with their feet. But it also reflects a reality. "The best school you can go to is the best one you can graduate from," says New America's Fishman.

Graduation rates are also one of the most important predictors of later success. Less than 1% of students who



THE CAREER-FOCUSED MAJORS AT ROBERT MORRIS, SUCH AS NURSING AND COMPUTER NETWORKING, PAY OFF.

VALUE ALL-STARS

These schools do the best job of helping their students perform far better than expected.

RANK	SCHOOL (OVERALL RANK)	EARNINGS OUTPERFORMANCE
1	ROBERT MORRIS UNIVERSITY ILLINOIS (44) ▸ *Chicago*	$8,809
2	MOUNT ST. MARY'S UNIVERSITY (154) ▸ *Los Angeles*	$14,285
3	CALIFORNIA STATE UNIVERSITY AT STANISLAUS (82) ▸ *Turlock, Calif.*	$9,862
4	UNIVERSITY OF CALIFORNIA AT IRVINE (13) ▸ *Irvine, Calif.*	$5,757
5	SAINT PETER'S UNIVERSITY (134) ▸ *Jersey City, N.J.*	$11,639
5	FISK UNIVERSITY (295) ▸ *Nashville*	$9,269
7	MAINE MARITIME ACADEMY (8) ▸ *Castine, Maine*	$28,234
8	LA SIERRA UNIVERSITY (216) ▸ *Riverside, Calif.*	$11,263
8	UNIVERSITY OF WASHINGTON AT BOTHELL (36) ▸ *Bothell, Wash.*	$12,649
10	UNIVERSITY OF CALIFORNIA AT RIVERSIDE (123) ▸ *Riverside, Calif.*	$4,220

NOTES: *The earnings premium represents how much more the average graduate makes early in the person's career than would be expected given the economic and academic background of the student body. Other value-added measures used are graduation and student-loan default rates.*

attend the schools with the 100 highest graduation rates on our list default on their student loans. The default rate for the schools at the bottom of our list: 8%.

Reflecting the critical importance of this measure in the value equation, we put almost a quarter of our ranking weights on graduation rates. Graduation rates also figure prominently in another one of our measures: net price of a degree. That's because when you need more time to graduate, college becomes even more costly. So our estimate for the net price of a degree takes into account the time it takes for students to graduate from that school, as well as typical financial aid awards.

How to spot value: The best schools graduate more than what's average—65% at private colleges, 58% at public. Check on what support your student will get, including tutoring or counseling and enough spaces in required classes.

A PUSH TO EXCEED EXPECTATIONS

You may be aiming for the best college your child can get into. But tours and marketing materials, not to mention data on the average student, won't tell you if that college will do the best job with a kid like yours. That's why MONEY developed what we call a value-added measure. We looked at how well students of a particular institution do in three key measures—graduation rate, student loan defaults, and post-college earnings—compared with schools whose students had similar high school grades and similar economic backgrounds as measured by the percentage of low-income students attending.

Our rankings reveal plenty of schools that give students a remarkable boost. Consider our No. 1 Value All-Star, Robert Morris University Illinois in Chicago, which accepts students with spotty high school records and graduates them at almost twice the rate of schools with similar standards (see the profile at left). It rescued Trevor Kimlick of New Paris, Ind., who graduated near the bottom of his high school class and spent a few years, he says, "majoring in partying" at community college.

But when his father, Vincent, noticed Trevor was starting to take life more seriously, he decided his son would benefit from a fresh start. Seeing the kind of close tabs Robert Morris would keep on his son clinched the deal. Trevor thrived at RMU, landing on the dean's list and getting a good job as a planner for the Menards hardware store chain after his graduation in 2012. While Trevor could have gone to a cheaper college, Vincent doesn't flinch when he writes out the checks for the loans he took. "I don't think he'd have made it" anywhere else, he says. "It was an investment."

How to spot value: Use our value-added grades as a screening tool. You can also look up graduation rates by race and gender at Collegeresults.org. Talk to students at the school who share characteristics with your student to see how they fare at the school.

A BLEND OF PRACTICAL SKILLS AND SMARTS

It's a conundrum. Studying liberal arts typically makes it harder to find a good job out of the gate. But sticking to preprofessional coursework is risky too. Four years ago a rising freshman eager to qualify for a high-paying job might have majored in petroleum engineering. But he or she would graduate today into a job market in which oil companies are laying off thousands, notes Peter Cappelli, director of the Center for Human Resources at the Wharton School and author of the book *Will College Pay Off?* "Timing the job market is virtually impossible," he says.

Saying you have to choose between a liberal arts and a preprofessional degree, though, "is kind of dumbing down the conversation. It's not either/or. It is *and*," says Brandon Busteed, executive director of Gallup's education division. A school that balances academics with real-world practicality is the best value. In a 2013 Hart Research Associates survey, most employers said the most successful workers had both field-specific and broad skills and knowledge.

When Edlyn Wang told her high school friends she would be going to Babson College, one wrote in her yearbook, "Good luck at that college you made up," the 2012 grad recalls. But Babson, a business school where about half the course load is liberal arts, has gained attention for its high-earning grads. The college was MONEY's 2014 best value and ranks No. 2 this year. Wang, now a buyer for Ross Stores, says her mix of classes—financial analysis as well as writing—gives her an edge.

Overall, Babson alums report earning $60,100 within five years of graduation, more than $9,000 above the average for schools with similar students. (Almost a quarter of our rankings are tied to earnings.)

Another measure of the value of the college experience is whether you leave campus with a network in place to help you navigate the hiring maze. Surveys by Jobvite, which makes résumé-screening software, find that personal referrals are recruiters' best source of hires; 40% of workers say they got their best job from one.

How to spot value: Look for colleges that connect coursework to the real world, Cappelli suggests. "People learn best in the context of real problems," he says. And you want a school that pushes a multidisciplinary approach, says Josh Jarrett, a former deputy director of postsecondary success for the Bill & Melinda Gates Foundation and co-founder of Koru, a job-training program. Techies need to practice writing and speaking. Poets need to develop financial skills.

Also favor schools that help you go from the classroom to the office. Gallup found that students who got internships in college were 50% more likely than those who didn't to thrive professionally

GREAT SCHOOLS YOU CAN ACTUALLY GET INTO

The highest-ranking schools that admit at least two-thirds of all applicants.

RANK	SCHOOL (OVERALL RANK)	ACCEPTANCE RATE
1	**TEXAS A&M UNIVERSITY** (20) *College Station, Texas*	69%
2	**UNIVERSITY OF WASHINGTON AT BOTHELL** (36) *Bothell, Wash.*	76%
3	**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY** (48) *Blacksburg, Va.*	70%
4	**MARTIN LUTHER COLLEGE** (52) *New Ulm, Minn.*	96%
5	**FAIRFIELD UNIVERSITY** (56) *Fairfield, Conn.*	71%
6	**MASSACHUSETTS MARITIME ACADEMY** (59) *Buzzards Bay, Mass.*	77%
7	**THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA** (67) *Charleston, S.C.*	80%
8	**PRINCIPIA COLLEGE** (68) *Elsah, Ill.*	84%
8	**BRYANT UNIVERSITY** (68) *Smithfield, R.I.*	77%
10	**SAINT JOHN'S UNIVERSITY** (71) *Collegeville, Minn.*	75%

NOTE: *Acceptance rate is for the 2013–14 academic year.*

COURTESY OF TEXAS A&M

NO. 1 GREAT SCHOOL YOU CAN GET INTO

Texas A&M

This 40,000-student public university is the kind of unexpected winner you'll find in MONEY's rankings, which emphasize value and post-grad success, not elitism. Texas A&M, which accepts

TEXAS A&M HAS AN UNUSUALLY COHESIVE CAMPUS CULTURE FOR A BIG PUBLIC UNIVERSITY.

69% of applicants, not only ranks No. 20 overall, but also tops our list of the best colleges you may actually be able to get into.

The estimated $67,500 that a typical in-state student who gets aid pays to earn a four-year degree makes Texas A&M one of the least-expensive colleges on our list. And Texas A&M beats out many more selective and pricier colleges when it comes to graduate paychecks. Recent grads report earning salaries of around $54,000, about $11,000 more than average, thanks in part to fiercely loyal alumni who often say, "Aggies hire Aggies." That school spirit is nurtured the summer before freshman year with "Fish Camp," a four-day intro to school traditions such as Midnight Yells and the school honor code.

later. Employers offer nearly two-thirds of interns full-time jobs, a survey by the National Association of Colleges and Employers found. So ask how the school helps students land paying internships.

Career services staffing makes up 5% of our rankings—1.5 workers per 1,000 students is average for our list—and this year we also looked at whether a college has a program to connect job-seeking students with alumni, a good networking tool. Grads from the 116 schools on our list that don't have such programs report salaries that are, on average, about $1,500 a year lower than those of schools that do.

FACE TIME THAT PAYS OFF NOW AND LATER

You're not getting much bang for your buck if your kid fades into the back of a big lecture hall for most of college. "Mentorship from instructors is one of the most fundamental aspects of a good-value college," says Busteed. In the largest-ever survey of the impact of college experiences on graduates' lives, Gallup last year polled 30,000 American adults. Those who were happiest and most professionally successful were twice as likely to say they had a professor who "cared about me as a person" or "made me excited about learning."

MONEY's data on faculty caseloads and accessibility, which account for 5% of our rankings, confirm that this is crucial. The public colleges on our list with the least accessible faculty have graduation rates of 48%, 15 percentage points below the rates for schools with student-to-faculty ratios of no more than 15 to 1.

What's more, recent graduates of the 100 private schools on our list with the largest class sizes reported earning about $42,000 a year. That's about $6,000 less than what fresh grads of the 100 private schools with the best student-to-faculty ratios earn.

The school in our rankings where undergrads get the most attention—the California Institute of Technology (No. 5), which has an average of three students per professor—also happens to produce among the highest earners in the country (more than $72,000 a year).

You don't have to be a young Einstein to find small classes. The average student at Molloy College on Long Island, N.Y. (No. 132), scored at about the 60th percentile on the SAT or ACT. Yet the school reports one faculty member for every 10 students, vs. an average of nearly 12 for private colleges on our list. Schools that don't make our rankings average a ratio of 22 to 1. Molloy graduates report earning an above-average $55,000 within five years, vs. $44,500 for all schools on our list.

How to spot value: For starters, zero in on class size. Lanier Mason, who graduated from Molloy in May, says he chose the school over better-known rivals after he saw that almost all the classes he'd take would have fewer than 30 students. "You get a lot of face time with professors. And being in a smaller group, you wouldn't be so afraid to ask questions," he says. Now a freshly minted accounting major, he credits attention from professors as the key reason he and his identical twin (also a Molloy

Additional reporting by Kaitlin Mulhere

accounting major) are both interning at accounting firm EY this summer.

Ask students about the faculty culture, such as how often professors see students outside the classroom, says Busteed. Cindy Ann Kilgo, a University of Iowa education researcher, suggests looking for opportunities to help professors with research.

INNOVATIVE TEACHING METHODS

While graduation rates say a lot about quality, what happens before you leave campus matters too. At some colleges professors don't seem to light the fire of learning. In a longitudinal study of 2,300 members of the class of 2009 at 24 colleges titled "Academically Adrift," 36% of seniors showed no real improvement in skills like critical thinking. Those who learned the least were twice as likely to be unemployed and living with their parents as the best learners were.

A value college will be one that both prods and inspires your student to learn. The best way to do that, a growing body of research shows, is to replace traditional lectures with "active" or "collaborative" learning. Especially powerful are classes in which professors give short presentations, assign small groups in-class problems, and offer immediate feedback. Students in such classes showed 10% greater growth in critical-thinking skills than those in traditional lectures did, a study by Kilgo of over 6,000 students at 47 institutions found.

That kind of teaching is the reason MONEY's top value college—Stanford—is home to this year's "professor of the year." Sheri Sheppard was named the top professor at research universities by the Council for Advancement and Support of Education for her transformation of her engineering class.

Lectures in which the professor "opens up the lid of the student's brain and pours stuff in," says Sheppard, "don't lead to deep learning as effectively as integrating what they are studying with action and feedback." Sophomores in her Introduction to Solid Mechanics class bring their bikes in on the day she teaches how loads are transferred and design the gearing for a bike-share program. "It is somewhat chaotic," she says. But it reflects the kinds of tasks the students will face at a job.

How to spot value: Classrooms can tell you a lot, says Kilgo. A good sign: Instead of lecture halls, you see rooms with movable chairs and tables and whiteboards. And ask what incentives professors have to improve their teaching. Remember: A school that gets your student enthusiastic about a lifetime of learning is an investment that will pay dividends for decades to come. M

MOST AFFORDABLE

Where students typically shell out the least to earn a degree, thanks to ample aid and low tuition.

RANK	SCHOOL (OVERALL RANK)	EST. NET PRICE OF DEGREE
1	BEREA COLLEGE (52) Berea, Ky.	$41,275
2	PRINCIPIA COLLEGE (68) Elsah, Ill.	$66,117
3	RUST COLLEGE (731) Holly Springs. Miss.	$69,040
4	MOUNT VERNON NAZARENE UNIVERSITY (638) Mount Vernon, Ohio	$71,408
5	COLLEGE OF THE OZARKS (26) Point Lookout, Mo.	$74,932
5	BRIGHAM YOUNG UNIVERSITY (15) Provo, Utah	$84,247
7	TOUGALOO COLLEGE (598) Tougaloo, Miss.	$84,315
8	COOPER UNION (9) New York City	$84,950
9	MARTIN LUTHER COLLEGE (52) New Ulm, Minn.	$86,175
10	VOORHEES COLLEGE (328) Denmark, S.C.	$87,861

NOTE: The estimated average net price of a degree takes into account all financial aid (need, merit, athletic) awarded by the school, tuition inflation, and the time it takes the typical student to graduate.

THE *MONEY* COLLEGE PLANNER

With the release of the 2015–16 Best Colleges, we are rolling out the MONEY College Planner, the ultimate guide to picking the right school for your student—and for your wallet. At money.com/colleges, a site powered by Unigo.com, you'll find:

FULL RANKINGS See all of the 700-plus schools that provide the best value for your tuition dollar, as well as profiles of the top 50 colleges.

MORE TOP SCHOOLS Browse our complete rankings of the Best Publics, Best Liberal Arts Colleges, Value All-Stars, Most Affordable, Best for Merit Aid, and Great Schools You Can Actually Get Into.

CUSTOMIZED SEARCH Build your own Best Colleges list based on factors that are most important to you, from location to average test scores of students attending.

TOOLS Find out how much the schools you're interested in will cost you based on your finances and other key information.

ADVICE Browse our library of stories on getting and paying for a great education.

PREMIUM SERVICES Our full-access program offers a more powerful search tool, unique data, more profiles, and one-on-one advice from college counselors who are members of the Independent Educational Consultants Association; $24.95 a year or $14.95 for MONEY subscribers.

HOW ARE YOU PAYING *for* COLLEGE?

Are you a billionaire?

YES

NO

Are you planning on winning the lottery?

YES

Good luck!

Here are some lucky numbers: 7, 13, 25

NO

Have you saved enough money?

YES

Wow! You must have found a pot of gold!

NO

Seriously, who has?

Can you borrow from family and friends?

SURE!

Time to call crazy Uncle Jimmy!

Is it enough?

YES

NO

NO

Are you applying for grants and scholarships?

Money grows on trees!

YES

Keep up the good work!

NO

But, it's free money! Get some! SallieMae.com/ScholarshipMoney

Do you have enough for college yet?

YES

NO

Now, consider a responsible private student loan. SallieMae.com/PrivateLoan

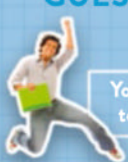
Learn more about federal student loans. SallieMae.com/FederalLoan

Is it enough?

NO

YES

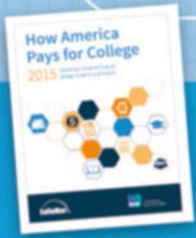
GUESS WHAT?



You're going to college!

COLLEGE!

It's free!



CUT the CORD

NOT LONG AGO ONLY FEARLESS TECHIES WOULD HAVE DARED TO DITCH THEIR CABLE TV FOR ONLINE STREAMING. NOW IT'S EASY FOR ANYONE TO SLICE THE CONNECTION—ALONG WITH THE MONTHLY BILL.

BY JACOB DAVIDSON

ILLUSTRATIONS BY BEN MOUNSEY

Paying bills is never fun, and that goes double for cable TV, the least customer-friendly industry this side of repo men. It's not your imagination—the bill really does balloon every year. From 1995 to 2014 the price of expanded basic cable increased at almost 2½ times the rate of inflation.

But as *Game of Thrones* fans know, even the biggest kingdoms can be toppled. In the past year an explosion of online viewing services and hardware choices has turned cord cutting into child's play, and it can be a very lucrative game. You still need to pay for Internet, but Greg Ireland, research director for multiscreen video at market-analysis firm IDC, estimates that for people with a "double play" bundle—cable TV and Internet in the same bill—canceling cable would save an average of $75 a month. If you switch to online streaming, you could duplicate a basic-cable menu for $34 a month.

The big advantage to streaming is that you generally pay for only what you watch: no more Spike or Oxygen or the Jewelry Channel unless you want it. There are tradeoffs, at least to get started. While cable is essentially one-stop shopping—a single box and a single tier of programs—streaming requires you to be a more active consumer. You'll need to explore various services to find the ones with your favorite shows, then pair them with the right box. But the financial advantages are obvious. With streaming you buy the hardware, as opposed to renting a cable box for about $10 a month and a DVR for $15 more. You'd have to look hard to find equipment for more than $99 (and "streaming sticks" cost $35). In other words, you'd recoup your startup costs in about four months.

Still need a push to take the plunge? The following guide will walk you through each step. Not listed: the satisfaction you'll get when you pick up your phone, call the cable company, and cut the cord for good.

1 PICK YOUR SERVICE

Perhaps the biggest adjustment for cord cutters is that mimicking your cable choices requires a subscription to more than one streaming service. That's actually good news, because it allows you to mix and match programming that's closer to your tastes. Also, subscribing to—and canceling—these services is done online: no more getting stuck on hold with the cable company.

NETFLIX

PRICE: $9 a month for high-definition streaming
MAJOR SHOWS: *House of Cards, Orange Is the New Black* (pictured), *Unbreakable Kimmy Schmidt, Daredevil*

Netflix is a bit like an online premium channel, with a large catalogue of movies and TV shows as well as a growing number of its own, exclusive productions. It can take a while for blockbuster movies to appear on the service, but Netflix's buzzworthy original programming has made it an increasingly popular choice.

CLOCKWISE FROM LEFT: PHOTOGRAPHS COURTESY NETFLIX; COURTESY OF ABC; HELEN SLOAN/HBO/COURTESY OF EVERETTE COLLECTION; LACHLAN CUNNINGHAM/GETTY; COURTESY OF SHOWTIME; GENE PAGE/AMC/COURTESY EVERETTE COLLECTION

2 BUY YOUR HARDWARE

Along with subscribing to streaming services, you need to buy the hardware to broadcast the content on your TV. These boxes, sticks, and antennas—yep, the antenna is back—are the most popular. But some are more versatile, so pick one that's compatible with the services you want. One plus: The boxes and sticks are portable enough to take on vacation.

PHOTOGRAPHS COURTESY OF ROKU, APPLE, GOOGLE CHROMECAST; AMAZON; MOHU

HULU

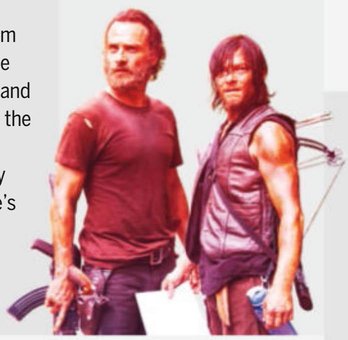
PRICE: $8 a month
MAJOR SHOWS: *Empire, Modern Family* (pictured), *The Mindy Project, Scandal, Seinfeld* reruns

Hulu Plus carries the primetime lineups from Fox, NBC, ABC, and the CW, as well as current and archived content from the networks and cable channels like Comedy Central and FX. There's also some exclusive content, including *The Mindy Project.*

SLING TV

PRICE: $20 a month
MAJOR SHOWS: *The Walking Dead* (pictured), *Chopped,* ESPN sports

Sling TV delivers more than 20 basic-cable channels, including AMC, TNT, A&E, CNN, and the Food Network (though it doesn't offer archived shows for all channels). It is the only service carrying ESPN and ESPN2.



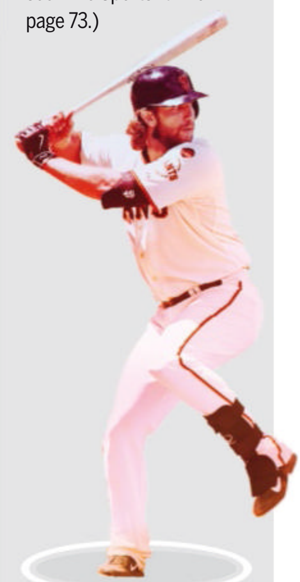
HBO NOW

PRICE: $15 a month
MAJOR SHOWS: *Game of Thrones* (pictured), *True Detective, Veep, Ballers, Girls*

HBO was the first premium channel to release a stand-alone streaming channel. In addition to broadcasting its current slate of shows, HBO Now contains a library of every hit HBO series, as well as its original movies, documentaries, and major sporting events.

SPORTS

So far there's no one-stop shop for sports fans. Sling TV offers various college-oriented sports channels (in addition to ESPN), and each major sports league (MLB, NFL, NBA, NHL) runs its own streaming service. They vary in price but typically cost about $11 a month. The bad news: They tend to black out local games. (For more hard-core, can't-miss-a-game sports fans, see "The Sports Fan" on page 73.)



AMAZON PRIME VIDEO

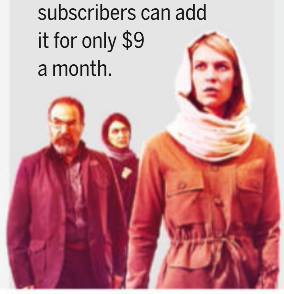
PRICE: $99 a year
MAJOR SHOWS: *Transparent, Alpha House, Bosch*

Amazon Prime Video is a lot like Netflix in that it mixes a back catalogue of movies and TV shows with a number of exclusive shows. There are many non-TV benefits too, including a music-streaming service, free two-day shipping on Amazon orders, and more.

SHOWTIME

PRICE: $11 a month
MAJOR SHOWS: *Penny Dreadful, Ray Donovan, Homeland* (pictured)

This option is already $4 a month cheaper than HBO Now, and now Hulu subscribers can add it for only $9 a month.



CBS ALL ACCESS

PRICE: $6 a month
MAJOR SHOWS: *NCIS, The Big Bang Theory, The Good Wife*

All Access delivers more than 6,500 CBS episodes on demand, including new episodes (available for viewing the next day). All Access subscribers in most markets can also use the service to watch live network content, including sports like pro golf (although NFL games are blacked out).

ROKU 3

The best option for most users. It's compatible with perhaps the widest variety of services (2,000 channels, says Roku) and includes voice-powered search. But no movies or shows from iTunes (it's exclusive to Apple TV).

APPLE TV

For folks who love Apple. It works with iTunes (but not Amazon) and can play shows from an iPhone, iPad, Mac, and most streaming services. You'll need an HDMI cable (average cost: $10) to connect it to your TV.

CHROMECAST

A great low-cost option. Tiny enough to fit in your hand, the device plugs into the HDMI port on your TV, where it picks up shows from your computer's Google Chrome browser or Android device.

AMAZON FIRE TV

Best for people who prefer Amazon's video offerings, though it does carry most of the major streaming services and also features voice search and a blazing-fast interface.

INDOOR TV ANTENNA

Like the rabbit ears of old, these antennas enable you to pick up network TV over the air—this time in high definition. Pricier models like this Mohu Curve (about $50) are attractive enough to be mounted on your wall.

3 BUILD THE PERFECT PLAN

Once you have your streaming box (or stick or antenna) and you know which services offer your shows, you're ready to put it all together. Because there are so many choices—with more coming online every month—think of this as a guide for the most common types of viewers and the packages that would work for each. If one of these plans is almost—but not quite—right for you, remember that you can always rent shows à la carte via iTunes and Amazon. That's the beauty of streaming: You buy only what you want to watch.

THE BASIC-CABLE JUNKIE

SAVE $492 A YEAR

THE PLAN: Hulu, CBS All Access, Sling TV

This option is for you if you like to follow the latest network and non-premium cable shows, like *NCIS, The Walking Dead,* and *Modern Family.* Hulu and CBS All Access will give you the networks, and Sling TV will bring in the most popular cable content.

That said, if you're not going to watch at least eight different shows a year on cable channels, it's cheapest to get your cable fix by buying individual seasons on iTunes or Amazon Instant Video.

PRICE: $408 a year ($34 per month)

THE NEWSHOUND

SAVE $660 A YEAR

THE PLAN: Sling TV

For viewers who just have to keep up with current events and watch breaking news when it happens, a combination of Sling TV and a TV antenna should have you covered. Sling has CNN and Bloomberg TV, and for $5 extra a month you can get international news channels such as Euronews, France24, and News18 India. Add an indoor TV antenna, and you've got network and local news as well.

PRICE: $240 a year ($20 per month)

THE PRESTIGE AFICIONADO

SAVE $381 A YEAR

THE PLAN: Netflix, Amazon Prime, HBO Now, Showtime

First, the most buzzed-about TV moved from networks to premium cable and then to basic cable. Now a similar transition is moving top programming from cable to the streaming world. Netflix has *House of Cards* and *Orange Is the New Black,* while Amazon isn't too far behind with crime drama *Bosch* and the Golden Globe–winning *Transparent.* Close the loop with HBO and Showtime subscriptions—for your *Game of Thrones* and *Homeland* fixes—and you've got access to some of the best TV content around.

PRICE: $519 a year ($43 per month)

THE OMNIVORE

SAVE $205 A YEAR

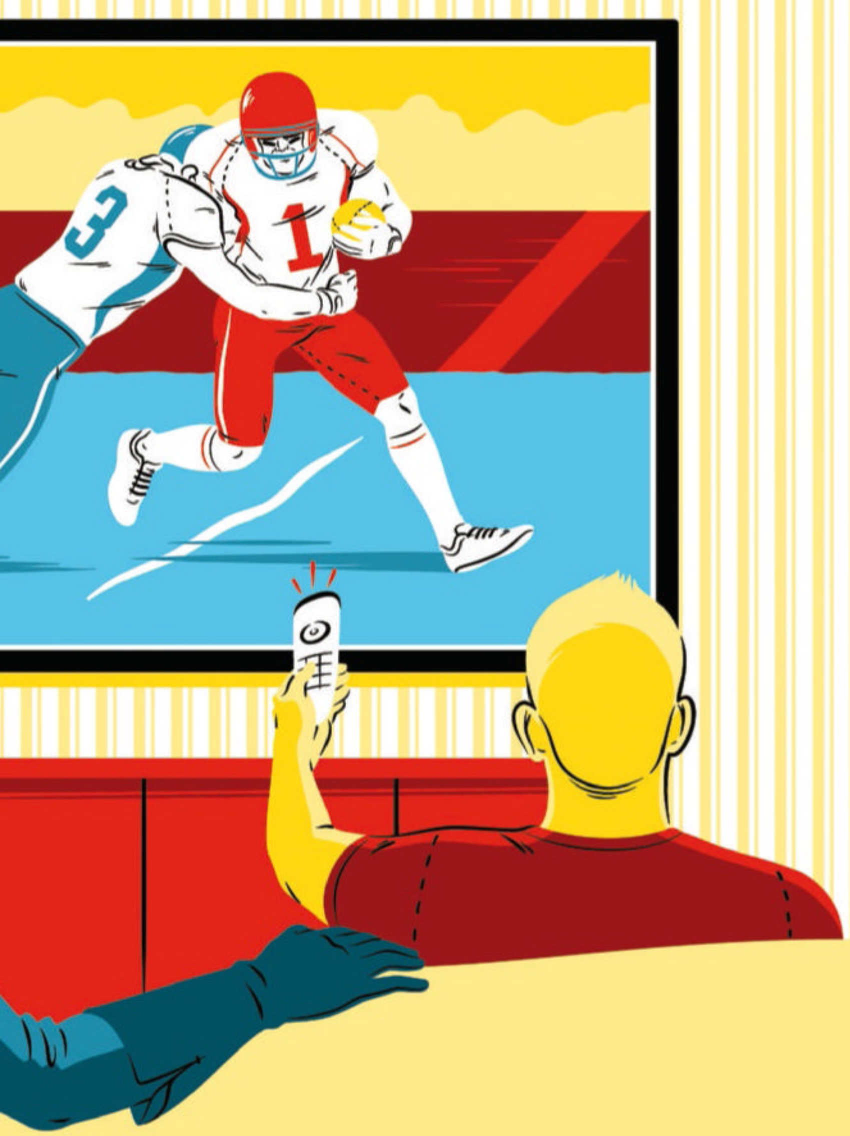
THE PLAN: HBO Now, Netflix, Hulu, CBS All Access, Sling TV

This is the option for TV fanatics who want everything and the kitchen sink. That means network TV, cable shows, streaming shows, HBO, movies, all on demand whenever you want.

Believe it or not, you can still have all this for less than the price of cable. Even after subscribing to HBO Now, Netflix, Hulu, CBS All Access, and Sling TV, you'll still be more than $200 ahead. Don't care for *Girls* or *Game of Thrones*? You can replace the HBO option and subscribe to Showtime through Hulu and save another $72. Or you can drop Sling TV for Showtime and save an extra $108.

PRICE: $695 a year ($132 per month)

__NOTE:__ Savings based on average $900 a year ($75 a month) difference between paying for cable and Internet and paying for Internet alone. ***SOURCE:*** *Greg Ireland, IDC*



THE SERIAL BINGER

SAVE $540 A YEAR

THE PLAN: 12 seasons of shows

If you have unpredictable tastes but focus on only one show at a time, it might make the most sense to buy your television à la carte. For the amount you'd save by switching from cable to just Internet service (about $900 a year), you can pick up 30 seasons of TV for $30 each. Assuming these are all 45-minute shows with 22 episodes, that's almost 500 hours of content. If you can't imagine yourself ever watching more than that, then this plan is for you. (Don't forget to grab a TV antenna for major live events like the Oscars and the Super Bowl, or if you just want the option of kicking back and watching primetime now and then.)

PRICE: $360 a year ($30 per month)

THE MOVIE LOVER

SAVE $352 A YEAR

THE PLAN: Netflix, HBO Now, 52 movie rentals

If your favorite part of cable is watching movies, cutting the cord might just maximize your bliss. Much like cable on-demand services, you can rent many of the latest releases on iTunes or Amazon for about $5 apiece. HBO also carries a wide selection of recent movies, and Netflix has a large back catalogue of films (though titles will appear and disappear somewhat randomly).

PRICE: $548 a year ($46 per month)

THE SPORTS FAN

SAVE $340 A YEAR

THE PLAN: Sling TV with sports package, two sports-league services

If you want to see a significant number of local games, stop here. This is one area where streaming services can't fully deliver. Local games are generally exclusive to regional sports networks.

There's also the issue of some online services being a little more unstable than diehard fans might like. Dish's Sling TV failed for many customers during this year's NCAA Final Four, forcing the company to issue an apology.

Sling TV will give you ESPN and ESPN 2, and for another $5 you can get even more sports options, including ESPN U, ESPNews, and the SEC Network. Add an indoor TV antenna, and you'll also have access to network sports broadcasts.

For supporters of teams outside your local area, some sport-specific streaming options might also be attractive. Each major sports league offers some sort of online viewing option for around $130 a year, with the caveat that local games are blacked out. (NFL fans can pay $70 to watch any team they like, but they can only tune in to an on-demand rebroadcast once the game is over.)

PRICE: $560 a year ($47 per month)

ITUNES/AMAZON INSTANT VIDEO

While no set of streaming services is guaranteed to include all your favorite shows, it's easy—and cost-effective—to fill in the gaps by purchasing missing seasons individually through iTunes, Amazon Instant Video, or Google Play. Television seasons vary in price and release schedule, but they typically sell for about $30. The switch from cable to streaming will likely save you that much each month.

Q+A: HAS THE INDEX FUND WON?

ANSWERED BY
JACK BOGLE

FOUNDER OF THE VANGUARD GROUP AND CREATOR OF THE FIRST RETAIL INDEX FUND

INTERVIEW BY PAT REGNIER
PHOTOGRAPHS BY MATT FURMAN

It certainly has. Vanguard has the largest share of fund assets—almost 20%—in the industry. Two-thirds of that is index funds.

But index funds had a fabulous year last year. [Vanguard's flagship Total Stock Market Index Fund earned 12.4%, vs. an average of 7.8% for domestic stock funds.] It's not going to happen again, maybe ever, so basically we got overly praised. You shouldn't buy an index fund because you think it's a hot performer. Buy it because you're going to hold it forever.

Look, all I did with the index fund was make sure you got your fair share of the market's return. Sometimes that fair share is going to be bad, so you're going to lose money. And that's a great marketing message—candor as a marketing strategy. And it's paid off. People hawking a particular fund have no idea how long it will continue to do well. They'll say, "Our fund went up 500% in the last 10 years, and the index fund only went up 320%, so indexes are overrated." That's usually the end for that fund.

Vanguard's no longer the only big player in indexing. What's the difference between buying a Vanguard fund and an index-based exchange-traded fund from, say, iShares?

The ETF is a different breed of cat. There are really two ETF businesses. One is huge and involves enormous amounts of trading. Then there's the much smaller market of individual investors who aren't trading all day long. They could just as easily be in the traditional mutual fund. [Vanguard sells its index funds in both ETF and traditional form.]

JOHN C. BOGLE
AGE: 86

LAUNCHED A NEW KIND OF FUND IN 1976. INSTEAD OF HAVING A MANAGER PICK STOCKS, IT REPLICATED THE S&P 500 AT LOW COST.

AUTHOR OF THE NEWLY RE-RELEASED *BOGLE ON MUTUAL FUNDS*

So ETFs have short-term money in them. What's wrong with that?

Investors will lose. It used to be you could get your money out of a fund at the close of a business day. Now you can trade in and out of the S&P 500 all day in real time. Don't ask me what kind of a nut would want to do that. It works against investors because if you have a big collapse in the market, and you get out at noon, the odds are pretty good the market will be up by the close. In the long run, trading is just a big distraction. Warren Buffett believes this. He said that 90% of the trust he's leaving to his wife should go in the Vanguard 500 Index Fund.

If he'd asked, would you have suggested the more diverse Vanguard Total Stock Market Fund instead?

Yeah! I wrote him about that. I didn't hear back from him. An even more interesting question is why he doesn't use international. Everybody's talking about how you have to have international, but I don't know why.

Why not? More than half of the stocks you could buy, by market capitalization, are outside the U.S.

In the long run, market returns are created by business returns. And I think American business and the American economy are going to be the strongest in the world. I think we have more innovation. I think we have better technology. And I know we have a better legal structure, better shareholder protections. Some foreign nations are fine, but not all.

I've said if you want to hold non-U.S. stocks, go to 20%. Now people are saying 40%. You know, if you go from 20% to 40%, and foreign stocks outperform by two percentage points per year—which would be astonishing—that's a 0.40 percentage point benefit. So my own view is it's not worth it.

This interview has been edited.

What about the benefits of diversification or the idea that going abroad can lower overall risk because markets aren't correlated?

Diversification is certainly true, but noncorrelation is bunk. It's applying higher mathematics to something I don't think requires it. We've overanalyzed the whole thing. I'm always the apostle of simplicity and lower costs.

Since 2000, fees charged by mutual funds have been coming down. Have you won that argument too?

Forty or so of the 50 largest fund groups are owned by publicly traded companies. They are in business to earn a return on capital for that company's investors, and that's the great conflict. They become great big marketing companies. They hold the line on fees, conceding only where they have to or for PR purposes. The cost structure of the industry is insane—50% profit margins are not unknown.

You set up Vanguard so that it's owned by its own funds, which in turn are owned by fund investors. It seems to me that idea is as important to you as indexing.

The conflict of interest in the industry isn't about indexing vs. active management. It's cost. The point of the Vanguard structure is to eliminate the management company's profit. Compare what investors pay at Vanguard to what they pay at a competitor, and we're saving shareholders a total of $14 billion a year.

What's that mean, to cut out the profit? Vanguard keeps costs low, but people must certainly be making financial services industry salaries.

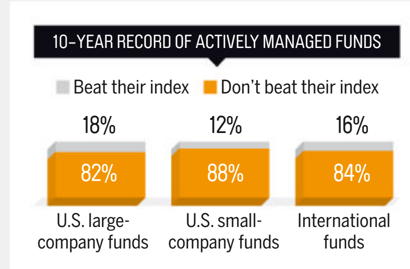
I never said we have low costs. I've said we have low expense ratios. That's very different. If you multiply Vanguard's average 0.14% expense ratio by its $3 trillion in assets, that's total expenses of about $4 billion. Go back to when we had about $1 trillion in assets, charging 0.21%—that's about $2 billion. So Vanguard's costs have gone from $2 billion to $4 billion. When you have 20 million shareholder accounts, it costs money. When you're employing 15,000 people all over the world, it costs money. We don't disclose executive compensation anymore, which I think is a little strange. [Bogle stepped down as Vanguard's senior chairman in 1999.] I designed the best company that I could design. But there are ways to make it better.

What are some things you would have done differently?

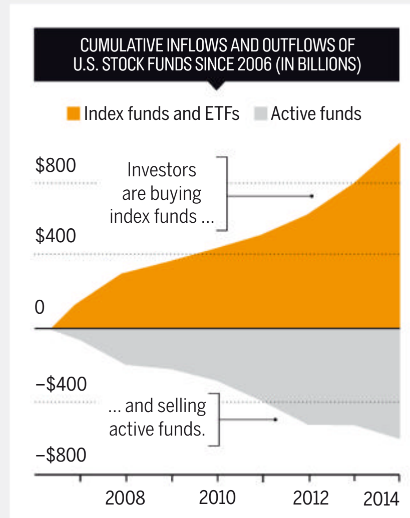
I would have made it mandatory that we continue to disclose executive compensation. And maybe make the company's financial statements more broadly available. I think openness is important if you're a company like

INDEX FUNDS TAKE OVER

With few active managers beating their indexes, more and more investors are choosing to buy just the average.



SOURCE: *S&P Dow Jones Indices*



SOURCE: *Investment Company Institute*

BOGLE STILL HAS AN OFFICE ON VANGUARD'S CAMPUS IN MALVERN, PA.

Vanguard because these people own not only your funds but the management company too. They're entitled to any information they want. If it's painful to disclose, well, that's too bad.

Okay, index funds win, but I still have to decide how much to invest in stocks. Should I worry that stock prices look high?

For most investors, if you're around the norm of 60% stocks and 40% bonds, I wouldn't vary it much now. But based on today's low stock dividend yields and bond yields, be prepared for a period of low returns compared to history.

So then why bother with stocks?

Well, put your money in a money-market account, and you get 0.1%. You have to invest, but you can't control the returns. And you should know that if you do stretch for higher returns, you'll be taking on extra risk.

One critic of indexing, money manager David Winters, says that because index funds own a stock no matter what, corporate boards have no incentive to rein in executive pay.

He just doesn't know what he's talking about. There is, as far as I can tell, no difference between the corporate governance activity of actively managed funds and index funds. They're both very low. But think through the logic of it: The old Wall Street rule was, if you don't like the management, sell the stock. In the case of an index fund, the rule has to be, if you don't like the management, fix the management, because you can't sell the stock. So I look at indexing as the great hope of governance.

You're concerned that the financial sector is too big. Why?

The job of finance is to provide capital to companies. We do it to the tune of $250 billion a year in IPOs and secondary offerings. What else do we do? We encourage investors to trade about $32 trillion a year. So the way I calculate it, 99% of what we do in this industry is people trading with one another, with a gain only to the middleman. It's a waste of resources.

What keeps you at this? Why are you sitting here talking to me instead of, I don't know, looking at paintings in Venice?

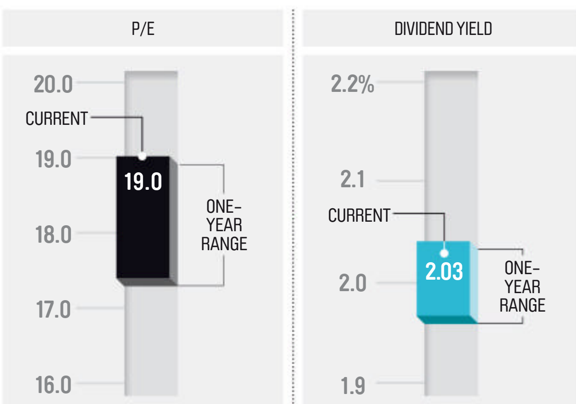
It's a little bit that you carve out, probably inadvertently, the kind of person you are. And people expect you to be that kind of a person. Those kinds of expectations—Adam Smith called them "the invisible spectator"—shape what you do. And I guess I am just the type that likes to keep moving. I can't imagine starting a day not knowing what I'm going to do. ■

MORE ONLINE
Watch videos of this interview and read more of Bogle's insights at ***Money.com.***

Small Stocks Stand Out

NORMALLY WHEN EQUITIES SINK, shares of small companies fall more. But as the global markets got hit in the month ended June 17, the Russell 2000 index of small stocks gained 2.1%. That's in part because small stocks have little exposure to the energy sector, which sank 4.1%.

S&P 500 RATIOS



BENCHMARKS

	TOTAL RETURN		
INDEX	ONE MONTH	ONE YEAR	THREE YEARS[1]
S&P 500	**–0.9%**	10.4%	18.6%
Nasdaq[2]	**0.3**	16.8	20.8
Russell 2000	**2.1**	9.2	19.6
Morgan Stanley EAFE	**–4.3**	–2.8	13.6
Dow Jones industrial average	**–1.6**	9.2	14.8
Barclays U.S. aggregate bond index	**–0.9**	2.7	1.9
SECTOR			
Financials	**1.4**	12.2	22.5
Health care	**0.9**	27.4	28.4
Consumer discretionary	**0.6**	18.2	22.9
Information technology	**–1.3**	15.5	17.9
Basic materials	**–2.1**	4.1	15.4
Telecom services	**–2.3**	2.4	6.8
Industrials	**–2.4**	4.2	18.9
Consumer staples	**–2.7**	10.9	14.8
Utilities	**–2.9**	4.3	9.0
Energy	**–4.1**	–19.4	6.8

NOTES AND SOURCES: *Stock index data as of June 17 from Lipper, New York; 877-955-4773. Sector returns from Bloomberg. Bond index data from Barclays. Monthly S&P 500 ratios are from Standard & Poor's. P/E ratios are based on previous four quarters of operating earnings. Biggest funds ranked by total net assets. [1]Annualized. [2]Price change only.*

BIGGEST MUTUAL FUNDS BY CATEGORY

CATEGORY	TOTAL RETURN ONE YEAR	TOTAL RETURN THREE YEARS[1]	EXPENSES (AS % OF ASSETS)
LARGE-CAP STOCKS			
Fidelity Contrafund (FCNTX)	12.9%	18.1%	0.64
American Funds Growth Fund of America (AGTHX)	11.4	20.3	0.66
Dodge & Cox Stock (DODGX)	8.0	22.2	0.52
American Funds Investment Co. of America (AIVSX)	7.5	18.2	0.59
American Funds Wash. Mutual Investors (AWSHX)	6.2	16.7	0.60
MIDCAP			
Fidelity Low-Priced Stock (FLPSX)	9.5	19.8	0.82
Vanguard Mid-Cap Index (VIMAX)	12.1	21.2	0.09
Fidelity Spartan Extended Market Index (FSEVX)	9.6	20.9	0.07
Vanguard Extended Market Index (VEXAX)	9.5	21.1	0.10
Columbia Acorn (ACRNX)	7.5	16.0	0.79
SMALL-CAP			
Vanguard Small-Cap Index (VSMAX)	8.6	20.8	0.09
Vanguard Explorer (VEXRX)	11.6	21.5	0.36
T. Rowe Price Small-Cap Value (PRSVX)	0.6	15.0	0.96
Vanguard Small-Cap Value Index Fund (VSIAX)	7.5	21.1	0.09
Vanguard Small-Cap Growth Index (VSGAX)	10.0	20.1	0.09
BALANCED			
Vanguard Wellington (VWENX)	6.0	12.8	0.18
American Funds American Balanced (ABALX)	6.1	13.2	0.59
Fidelity Balanced (FBALX)	8.8	13.7	0.56
Oakmark Equity and Income (OAKBX)	5.1	13.0	0.74
Fidelity Puritan Fund (FPURX)	8.9	13.7	0.56
INTERNATIONAL			
Vanguard Total International Stock Index (VGTSX)	–2.8	11.2	0.22
Harbor International (HAINX)	–2.5	11.6	0.75
American Funds EuroPacific Growth (AEPGX)	1.5	13.5	0.83
Vanguard International Growth Fund (VWILX)	0.1	13.8	0.34
Fidelity Diversified International Fund (FDIVX)	3.6	15.3	0.91
EMERGING MARKETS			
American Funds New World (NEWFX)	–4.9	8.1	1.03
Vanguard Emerging Markets Stock Index (VEMAX)	–1.6	4.8	0.15
T. Rowe Price Emerging Markets Stock (PRMSX)	–1.3	5.3	1.24
Fidelity Emerging Markets (FEMKX)	–2.5	6.8	1.07
Russell Emerging Markets (REMSX)	–5.9	4.7	1.51
U.S. GOVERNMENT BONDS			
Fidelity Government Income (FGOVX)	2.8	1.2	0.45
American Funds U.S. Government Securities (AMUSX)	2.4	0.9	0.64
MFS Government Securities (MFGSX)	2.2	0.7	0.88
J.P. Morgan Government Bond (OGGAX)	3.3	0.8	0.76
Sit U.S. Government Securities (SNGVX)	2.2	0.5	0.80
INVESTMENT-GRADE			
Vanguard Total Bond Market Index (VBTLX)	2.6	1.7	0.07
Vanguard Total Bond Market II Index (VTBIX)	2.6	1.7	0.10
Dodge & Cox Income (DODIX)	1.8	3.4	0.44
Vanguard Short-Term Investment-Grade (VFSUX)	1.5	2.1	0.10
T. Rowe Price New Income (PRCIX)	2.2	2.3	0.61
HIGH YIELD			
Vanguard High-Yield Corporate (VWEAX)	1.9	6.8	0.13
American Funds American High-Income Trust (AHITX)	–1.4	6.3	0.66
Fidelity Capital & Income (FAGIX)	4.5	10.2	0.71
Northern High Yield Fixed Income (NHFIX)	–0.9	7.4	0.81
Fidelity High Income (SPHIX)	–0.1	6.6	0.72
TAX-EXEMPT			
Vanguard Intermediate-Term Tax-Exempt (VWIUX)	2.8	2.8	0.12
Fidelity Municipal Money Market (FTEXX)	0.0	0.0	0.40
Vanguard Limited-Term Tax-Exempt (VMLUX)	0.7	1.1	0.12
Vanguard Tax-Exempt Money Market (VMSXX)	0.0	0.0	0.16
Vanguard Short-Term Tax-Exempt Fund (VWSUX)	0.3	0.6	0.12

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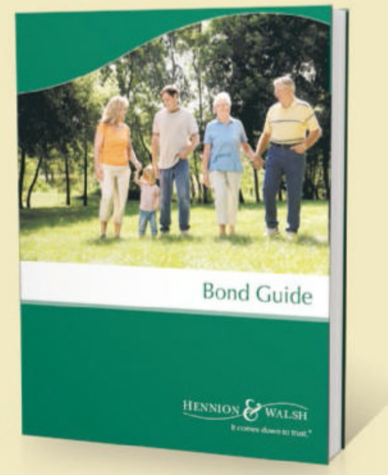

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Greece Is the Word on Wall St.

HAND-WRINGING OVER THE COUNTRY'S DEBT CRISIS HITS FOREIGN FUNDS IN THE *MONEY* 50.

THE TUSSLE BETWEEN Greece and its creditors—including the International Monetary Fund—caused another ripple of worry in the global markets. The result: Most stock and bond funds in our recommended list of mutual and exchange-traded funds fell in the four weeks ended June 17.

International funds with big stakes in Europe took it on the chin. **PowerShares International Dividend Achievers ETF,** with around half its assets in European stocks, dropped 4.7%. The Greek bailout drama reduced investors' appetite for risk taking. That, coupled with new trading regulations in China—which raised questions about whether Chinese equities were overheating—hit the developing world hard. **Vanguard Emerging Markets Stock Index** lost 6.1% of its value. —TAYLOR TEPPER

HOW TO USE OUR RECOMMENDED LIST

Building-block funds: For broad exposure to core asset classes
Custom funds: Specialized investments that can tilt your strategy
One-decision funds: If you want stocks and bonds in one portfolio

FUND (TICKER)	TOTAL RETURN ONE MONTH	ONE YEAR	THREE YEARS[1]	EXPENSES (AS % OF ASSETS)	PHONE NUMBER (800)
BUILDING-BLOCK FUNDS					
▼ Large-Cap					
Schwab S&P 500 Index (SWPPX)	**–0.9%**	10.2%	18.5%	0.09	435-4000
Schwab Total Stock Market Index (SWTSX)	**–0.6**	10.1	18.9	0.09	435-4000
▼ Midcap/Small-Cap					
iShares Core S&P Mid-Cap (IJH)	**0.2**	9.8	20.2	0.14	474-2737
iShares Core S&P Small Cap (IJR)	**1.9**	9.4	20.6	0.14	474-2737
▼ Foreign					
Fidelity Spartan International (FSIIX)	**–3.8**	–2.2	13.7	0.20	544-8544
Vanguard Total Intl. Stock (VGTSX)	**–4.3**	–2.8	11.2	0.22	662-7447
Vanguard FTSE A/W ex-U.S. Small (VFSVX)	**–3.7**	–3.4	12.3	0.37	662-7447
Vanguard Emerging Markets (VEIEX)	**–6.1**	–1.7	4.6	0.33	662-7447
▼ Specialty					
Vanguard REIT Index Investor (VGSIX)	**–3.5**	9.4	11.1	0.24	662-7447

FUND (TICKER)	TOTAL RETURN ONE MONTH	ONE YEAR	THREE YEARS[1]	EXPENSES (AS % OF ASSETS)	PHONE NUMBER (800)
▼ Bond					
Vanguard Total Bond Market (VBMFX)	**–0.9%**	2.5%	1.6%	0.20	662-7447
Vanguard Short-Term Bond (VBISX)	**–0.3**	1.4	1.0	0.20	662-7447
Vanguard Inflation-Protected (VIPSX)	**–0.5**	–0.2	–1.1	0.20	662-7447
Vanguard Short-Term Infl.-Prot. (VTIP)	**0.1**	–1.4	N.A.	0.10	662-7447
Vanguard Total Intl. Bond Index (VTIBX)	**–1.2**	3.8	N.A.	0.23	662-7447
CUSTOM FUNDS					
▼ Large-Cap					
Dodge & Cox Stock (DODGX)	**0.4**	8.0	22.2	0.52	621-3979
PowerShares FTSE RAFI U.S. 1000 (PRF)	**–0.9**	7.5	19.6	0.39	843-2639
Sound Shore (SSHFX)	**–0.5**	7.1	22.0	0.92	551-1980
Primecap Odyssey Growth (POGRX)	**0.1**	13.8	22.1	0.63	729-2307
T. Rowe Price Blue Chip Growth (TRBCX)	**–0.2**	16.0	21.1	0.72	638-5660
▼ Midcap					
Delafield Fund (DEFIX)	**–1.5**	–7.2	12.7	1.21	697-3863
Ariel Appreciation (CAAPX)	**–1.5**	10.4	23.6	1.12	292-7435
Weitz Hickory (WEHIX)	**–0.8**	5.3	14.4	1.22	304-9745
T. Rowe Price Div. Mid Cap Gro. (PRDMX)	**0.0**	16.4	20.4	0.89	638-5660
▼ Small-Cap					
Royce Opportunity (RYPNX)	**0.5**	–0.1	18.6	1.15	221-4268
Vanguard Small-Cap Value (VBR)	**0.1**	7.5	21.1	0.09	662-7447
Berwyn (BERWX)	**–3.3**	–2.3	14.6	1.17	992-6757
Wasatch Small Cap Growth (WAAEX)	**1.6**	10.9	15.4	1.21	551-1700
▼ Specialty					
PowerShares Intl. Div. Achievers (PID)	**–4.7**	–5.4	10.8	0.54	983-0903
SPDR S&P Dividend (SDY)	**–1.5**	7.6	16.4	0.35	787-2257[2]
Cohen & Steers Realty Shares (CSRSX)	**–3.3**	11.0	11.7	0.97	437-9912
SPDR Dow Jones Intl. Real Estate (RWX)	**–6.1**	–0.1	11.5	0.59	787-2257[2]
iShares N. American Nat. Resources (IGE)	**–4.8**	–21.9	3.7	0.48	474-2737
▼ Foreign					
Oakmark International (OAKIX)	**–3.8**	–1.8	18.4	0.95	625-6275
Vanguard International Growth (VWIGX)	**–3.6**	0.0	13.7	0.47	662-7447
T. Rowe Price Emerging Markets (PRMSX)	**–5.4**	–1.3	5.3	1.24	638-5660
▼ Bond					
Dodge & Cox Income (DODIX)	**–0.9**	1.8	3.4	0.44	621-3979
Fidelity Total Bond (FTBFX)	**–0.9**	2.5	2.7	0.45	544-8544
Vanguard Short-Term Inv. Grade (VFSTX)	**–0.4**	1.4	2.0	0.20	662-7447
iShares iBoxx $ Inv. Grade Corp. Bond (LQD)	**–2.0**	1.6	3.7	0.15	474-2737
Loomis Sayles Bond (LSBRX)	**–1.8**	–2.2	5.9	0.91	633-3330
Fidelity High Income (SPHIX)	**–1.1**	–0.1	6.6	0.72	544-8544
Vanguard Intm.-Term Tax-Ex. (VWITX)	**0.0**	2.7	2.7	0.20	662-7447
Vanguard Limited-Term Tax-Ex. (VMLTX)	**–0.1**	0.6	1.0	0.20	662-7447
Templeton Global Bond[3] (TPINX)	**–1.0**	–1.2	5.1	0.88	632-2301
Fidelity New Markets Income (FNMIX)	**–3.2**	–2.8	3.5	0.90	544-8544
ONE-DECISION FUNDS					
▼ Balanced					
Fidelity Balanced (FBALX)	**–0.3**	8.8	13.7	0.56	544-8544
Fidelity Global Balanced (FGBLX)	**–2.1**	–1.3	8.3	0.99	544-8544
Vanguard Wellington (VWELX)	**–1.0**	5.9	12.7	0.26	662-7447
▼ Target Date					
T. Rowe Price Retirement series (STOCK/BOND ALLOCATION)					
Example: 2005 Fund (45%/55%) (TRRFX)	**–1.2**	2.5	7.8	0.59	638-5660
Example: 2020 Fund (68%/32%) (TRRBX)	**–1.3**	4.6	12.2	0.67	638-5660
Vanguard Target Retirement series					
Example: 2025 Fund (70%/30%) (VTTVX)	**–1.5**	5.1	12.1	0.17	662-7447
Example: 2035 Fund (84%/16%) (VTTHX)	**–1.7**	5.6	14.3	0.18	662-7447

***NOTES:** As of June 17, 2015. N.A.: Not available. Load funds are included for those who prefer to use a broker. [1]Annualized. [2]Phone numbers are 866. [3]4.25% sales load. **SOURCES:** Lipper, New York, 877-955-4773; the fund companies*


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A Legacy Grows, Piece by Piece

by Cindy Dunn

I LEARNED TO SEW in high school, but I'd barely touched a needle and thread by the time I landed in Germany in 1983 as a 24-year-old American soldier. One day while shopping on the military base, I saw a Pfaff sewing machine for $300, almost half of a month's pay. I decided on the spot to splurge. I hoped to take lessons from my grandmother, an avid quilter, when I returned to the States. Besides, I was getting married, and I figured a sewing machine might come in handy.

My husband was also a soldier, and when our first child was born in 1986, I left the Army to be a stay-at-home mom. Over the next eight years, whenever my husband received orders to a new duty station, the sewing machine shuttled along with us. With the arrival of two more babies, however, sewing took a backseat to motherhood.

It wasn't until the summer of 1992 that I was able to visit my grandmother in Kentucky for a few days. After receiving those long-delayed lessons, I was confident enough to attempt my first quilt—an anniversary gift for my sister and brother-in-law. I loved turning a pile of fabric pieces into something beautiful and useful. Over the next few years, I made three more quilts as wedding gifts for friends.

Finally, after I had given away four quilts, it was time to keep one at home. I turned my husband's well-worn rugby T-shirts into a quilt for his 60th birthday.

Whenever I purchased quilting material, I would admire the latest sewing machines in the fabric stores. All the fancy features were mind-boggling—as were the price tags. But my simple and reliable machine did what I needed, so I saw no reason to upgrade.

My frugal grandmother certainly would have approved. Unfortunately, she passed away, at 90, before I could get back to Kentucky to share my quilting stories with her. My family and I still wrap ourselves in her quilts on cold nights in Georgia, just as we did in Germany, New Hampshire, and all the other places we've lived. My next quilt—for me this time—is already in progress. More than 30 years ago, I invested $300 in a sewing machine that is still paying dividends of beauty, love—and warmth.

Cindy Dunn is the founder of the Foreign Language Library Online (theflo.com). She lives in Columbus, Ga.

Illustration by GARY MUSGRAVE

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